

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of St. Ignace	County Mackinac
Fiscal Year End 12/31/2005	Opinion Date 02/24/2006	Date Audit Report Submitted to State 05/30/2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below (See instructions for further detail.)

- 1 ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
- 2 ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
- 3 ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
- 4 ☒ ☐ The local unit has adopted a budget for all required funds.
- 5 ☒ ☐ A public hearing on the budget was held in accordance with State statute.
- 6 ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
- 7 ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
- 8 ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
- 9 ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
- 10 ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
- 11 ☐ ☒ The local unit is free of repeated comments from previous years.
- 12 ☒ ☐ The audit opinion is UNQUALIFIED.
- 13 ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
- 14 ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
- 15 ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 231-627-3143		
Street Address 902 S. Huron Street, PO Box 250		City Cheboygan	State MI	Zip 49721
Authorizing CPA Signature <i>Annette M. Eustice, CPA, CGFM</i>		Printed Name Annette M. Eustice		License Number 1101019667



Beauty & charm are on our side.

**CITY OF ST. IGNACE
ST. IGNACE, MICHIGAN**

FINANCIAL STATEMENTS

DECEMBER 31, 2005

CITY OF ST. IGNACE

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CITY OF ST. IGNACE

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

February 24, 2006

Honorable Mayor and Members
of the City Council
City of St. Ignace
St. Ignace, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the **City of St. Ignace**, (the "City"), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages I-X is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the **City of St. Ignace**, (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of fiscal year 2005 by \$21,926,272 (*net assets*). Of this \$728,996 (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors.
- At December 31, 2005, unreserved fund balance in the General Fund was \$127,411 or approximately 6% of the total General Fund expenditures and transfers.
- Major asset acquisition items include the Library completion including building and equipment of \$1,621,281.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave and accrued interest expense).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include legislative, general government, public safety, public works, culture and recreation and other. The business-type activities include the water, sewer, Marina, garbage collection and golf course funds.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate authority – the Downtown Development Authority – for which the City is financially accountable and as such, the DDA is accountable to the City for its activities.

The government-wide financial statements can be found on pages 3-5 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of *governmental funds* is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 28 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, and Recreation Debt Fund, each of which are considered to be major funds. Data from the other 26 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General and special revenue funds. A budgetary comparison statement has been provided herein to demonstrate compliance with the General Fund. The budget, as adopted, delineates each of the individual funds and specifies a certain amount for each funds budget.

The basic *governmental fund* financial statements can be found on pages 6-10 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the various City functions. The City uses its internal service funds to account for its equipment and data processing activities.

Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise fund financial statements provide separate information for the water, sewer and marina departments which are considered major enterprise funds of the City. Data from the other two enterprise funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor enterprise funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on 11-14 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside, the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 15 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16-41 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information* including the combining statements referred to earlier in connection with nonmajor governmental, nonmajor enterprise, internal service and fiduciary funds which are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 42-63 of this report.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$21,926,272 at the close of fiscal year 2005.

Approximately 95% of the City's net assets reflect its investment in net capital assets (e.g., land, buildings, equipment and vehicles); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Net assets restricted for debt service and perpetual care represent approximately 2% of total net assets. The remaining balance of *unrestricted net assets* of \$728,996 may be used to meet the City's ongoing obligation to citizens and creditors.

City of St. Ignace
Net Assets
December 31, 2005

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Assets						
Cash and other assets	\$ 1,229,370	\$ 1,223,524	\$ 531,974	\$ 240,709	\$ 1,761,344	\$ 1,464,233
Capital assets not being depreciated	1,377,288	2,666,539	173,195	173,195	1,550,483	2,839,734
Capital assets, net of accumulated depreciation, where applicable	<u>6,962,915</u>	<u>5,650,815</u>	<u>21,144,547</u>	<u>21,773,396</u>	<u>28,107,462</u>	<u>27,424,211</u>
Total assets	<u>9,569,573</u>	<u>9,540,878</u>	<u>21,849,716</u>	<u>22,187,300</u>	<u>31,419,289</u>	<u>31,728,178</u>
Liabilities						
Current and other liabilities	856,276	771,925	217,172	205,553	1,073,447	977,478
Long-term debt, net of current portion	<u>2,394,559</u>	<u>3,098,022</u>	<u>6,025,010</u>	<u>6,160,010</u>	<u>8,419,569</u>	<u>9,258,032</u>
Total liabilities	<u>3,250,835</u>	<u>3,869,947</u>	<u>6,242,182</u>	<u>6,365,563</u>	<u>9,493,017</u>	<u>10,235,510</u>
Net assets						
Invested in capital assets, net of related debt	5,602,707	5,042,375	15,126,731	15,615,581	20,729,439	20,657,956
Restricted for debt service and perpetual care	35,032	82,574	432,805	86,593	467,837	169,167
Unrestricted	<u>680,999</u>	<u>545,982</u>	<u>47,977</u>	<u>119,563</u>	<u>728,996</u>	<u>665,545</u>
Total net assets	<u>\$ 6,318,738</u>	<u>\$ 5,670,931</u>	<u>\$15,607,534</u>	<u>\$15,821,737</u>	<u>\$21,926,272</u>	<u>\$21,492,668</u>

The City's net assets increased \$584,747 during the current fiscal year.

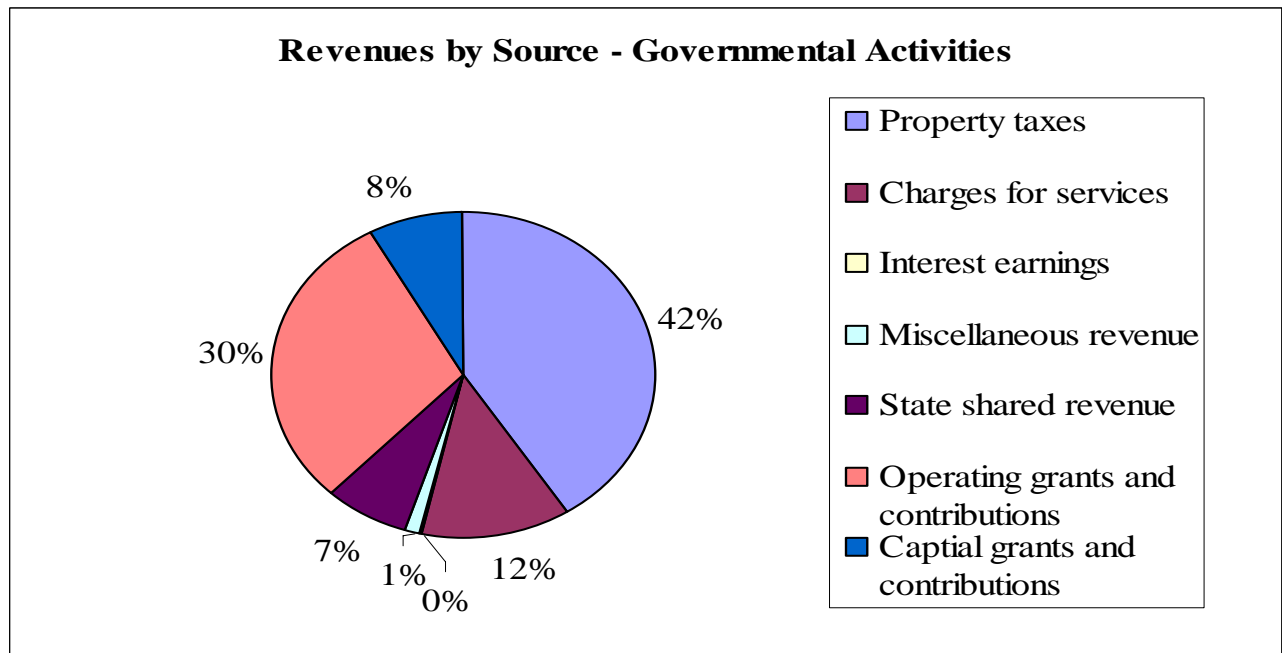
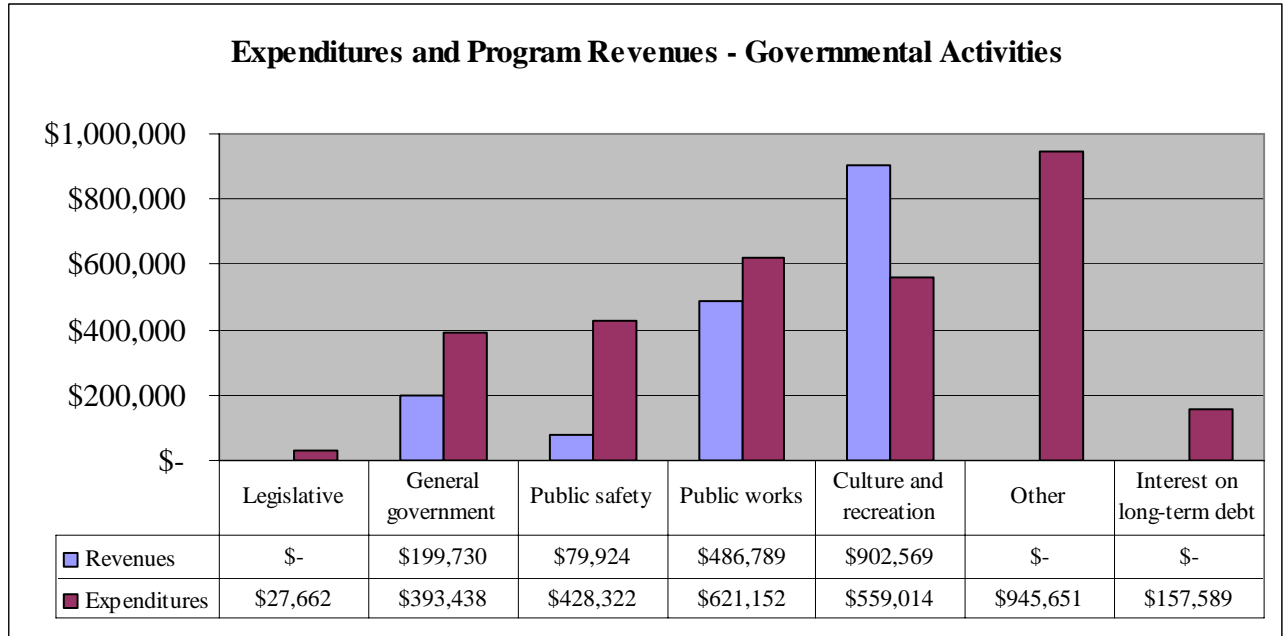
City of St. Ignace
Changes in Net Assets
For Year Ended December 31, 2005

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues						
Program revenues						
Charges for services	\$ 409,176	\$ 314,235	\$ 2,464,224	\$ 2,068,771	\$ 2,873,400	\$ 2,383,006
Operating grants and contributions	996,414	904,839	68,328	151,995	1,064,742	1,056,834
Capital grants and contributions	263,422	1,730,710	-	-	263,422	1,730,710

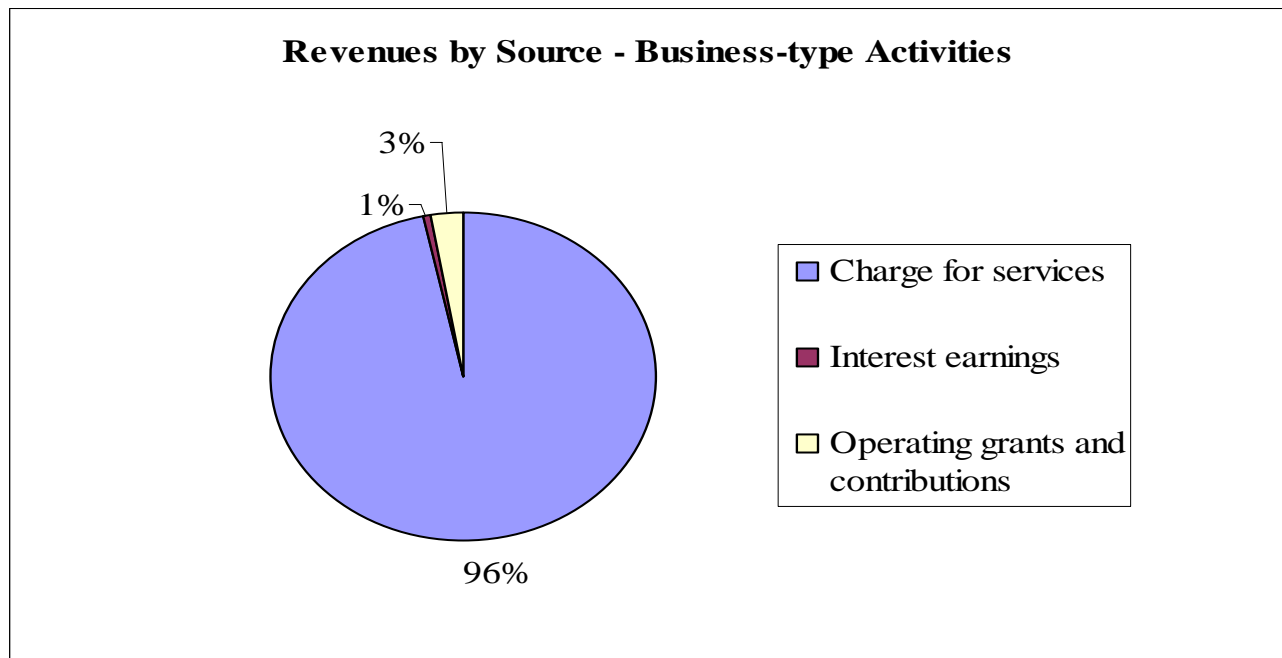
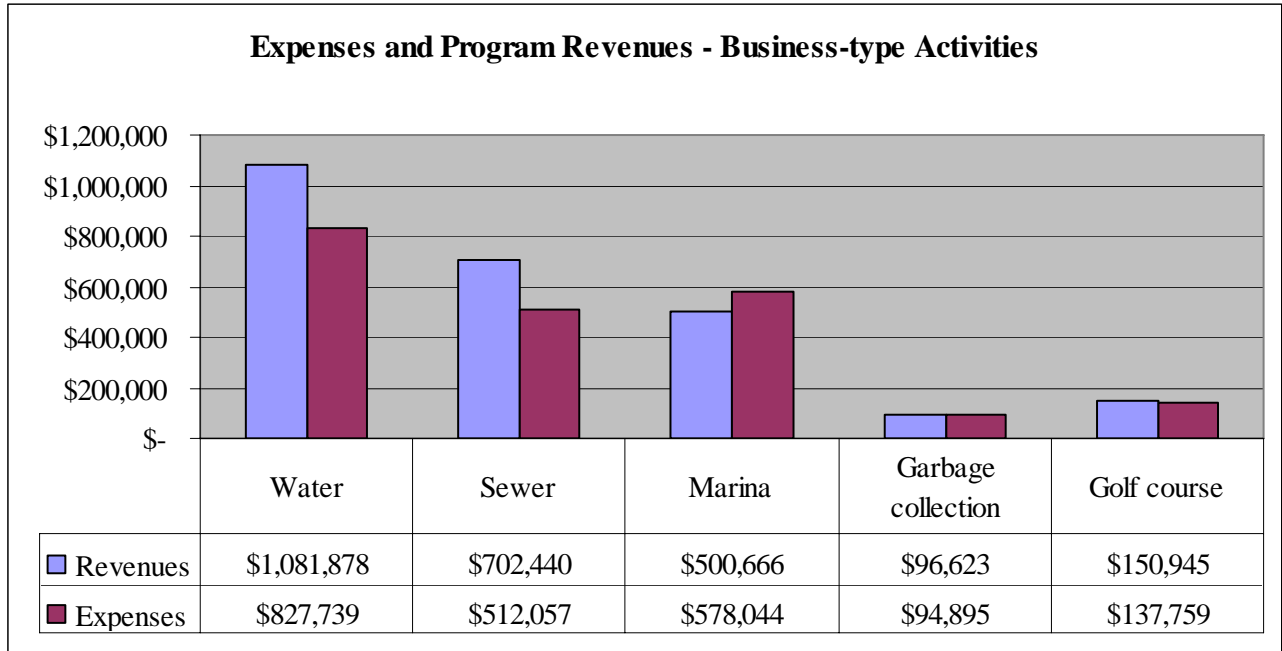
City of St. Ignace
Changes in Net Assets
For Year Ended December 31, 2005 (concluded)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
General revenues and transfers						
Property taxes –						
general operating	\$ 1,279,844	1,108,465	\$ -	\$ -	\$ 1,279,844	1,108,465
Property taxes – debt	77,703	75,577	-	-	77,703	75,577
State shared revenues	246,576	249,750	-	-	246,576	249,750
Interest earnings	12,822	15,742	14,985	13,717	27,807	29,459
Miscellaneous revenue	34,575	-	-	-	34,575	-
Transfers- internal activities	<u>611,246</u>	<u>612,363</u>	<u>(611,246)</u>	<u>(612,363)</u>	<u>-</u>	<u>-</u>
Total revenues and transfers	<u>3,931,778</u>	<u>5,011,681</u>	<u>1,936,291</u>	<u>1,622,120</u>	<u>5,868,069</u>	<u>6,633,801</u>
Expenses						
Legislative	27,662	27,939	-	-	27,662	27,939
General government	393,438	346,046	-	-	393,438	346,046
Public safety	428,322	496,884	-	-	428,322	496,884
Public works	621,152	634,746	-	-	621,152	634,746
Culture and recreation	559,014	701,383	-	-	559,014	701,383
Other	945,651	932,229	-	-	945,651	932,229
Water	-	-	827,739	916,814	827,739	916,814
Sewer	-	-	512,057	507,967	512,057	507,967
Marina	-	-	578,044	512,314	578,044	512,314
Garbage collection	-	-	94,895	94,370	94,895	94,370
Golf course	-	-	137,759	133,956	137,759	133,956
Interest on long-term debt	<u>157,589</u>	<u>171,398</u>	<u>-</u>	<u>-</u>	<u>157,589</u>	<u>171,398</u>
Total expenses	<u>3,132,828</u>	<u>3,310,625</u>	<u>2,150,494</u>	<u>2,165,421</u>	<u>5,283,322</u>	<u>5,476,046</u>
Change in net assets	798,590	1,701,056	(214,203)	(543,301)	584,747	1,157,755
Net assets - beginning of year, as restated	<u>5,519,788</u>	<u>3,969,875</u>	<u>15,821,737</u>	<u>16,365,038</u>	<u>21,341,525</u>	<u>20,334,913</u>
Net assets - end of year	<u>\$ 6,318,738</u>	<u>\$ 5,670,931</u>	<u>\$15,607,534</u>	<u>\$15,821,737</u>	<u>\$21,926,272</u>	<u>\$21,492,668</u>

Governmental activities. Governmental activities increased the City's net assets by \$798,950.



Business-type activities. Business-type activities decreased the City's net assets by \$214,203.



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the main operating fund of the City. The General Fund's balance increased by \$27,410 from \$139,006 to \$166,416 during 2005.

Proprietary funds. The City's *proprietary fund statements* provide the same type of information found in the government-wide financial statements, but in more detail.

As discussed below and in previous years, the Water and Marina Enterprise Funds are causing cash flow burdens on the other funds and these issues need to continue to be closely monitored in 2006.

General Fund Budgetary Highlights

The annual "Budget Review" highlights the proposed budget for each fiscal year and expounds upon the major budget issues. The audit for the fiscal year compares actual expenditures to budgeted amounts which require amending those expenditures.

Due to the departure of Gary Heckman as City Manager near the end of fiscal 2005, no budget amendments were recorded.

Capital Asset and Debt Administration

Capital assets – The City defines a capital asset as an asset with an original cost that exceeds \$5,000 and an estimated useful life greater than one year. Included in the cost of a capital asset are items such as labor and freight and any other costs associated with bringing the asset into full operation. Assets are depreciated using the straight-line method over the course of their useful lives.

City of St. Ignace
Capital Assets
 (net of depreciation, where applicable)
December 31, 2005

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land	\$ 1,377,288	\$ 1,377,288	\$ 173,195	\$ 173,195	\$ 1,550,483	\$ 1,550,483
Construction in process	-	1,289,251	-	-	-	1,289,251
Buildings and improvements	5,778,007	4,347,848	5,531,326	5,707,619	11,309,333	10,055,467
Land improvements	251,430	262,185	-	-	251,430	262,185
Machinery and equipment	842,770	911,136	47,299	64,317	890,069	975,453
Vehicles	90,708	129,646	-	-	90,708	129,646
Water	-	-	7,556,804	7,771,608	7,556,804	7,771,608
Sewer	-	-	329,259	344,353	329,259	344,353
Marina	-	-	7,679,859	7,885,499	7,679,859	7,885,499
Total	<u>\$ 8,340,203</u>	<u>\$ 8,317,354</u>	<u>\$21,317,742</u>	<u>\$21,946,591</u>	<u>\$29,657,945</u>	<u>\$30,263,945</u>

Additional information on the City's capital assets can be found in Note 3C on pages 26-29 of this report.

Long-term debt. Debt incurred in the course of constructing or acquiring a capital asset is recorded and paid for through a debt service fund or proprietary fund. Debt is classified as long-term if the debt matures in a period greater than one year. At the end of the current fiscal year, the City had total debt outstanding of \$9,293,060. Of this amount \$3,102,050 is comprised of debt backed by the full faith and credit of the government. The remainder of the City's debt represents bonds secured solely by a specified revenue source.

Additional information on the City's long-term debt can be found in Note 3F on pages 31-36 of this report.

Economic Factors and Next Year's Budgets and Rates

The City continues to experience increases in property values, which increases property tax revenues. However, the increased revenues generated from property tax increases have been largely offset by decreases in state shared revenue, due to the State of Michigan's current financial difficulties. The City continues to review methods for delivery of services and continues to seek grants and other funding sources.

The 2006 budget projects continued growth in taxable property values with state shared revenues remaining at the previous year's levels. The City will continue to monitor closely its capital needs, service requirements, and upcoming projects as they relate to budget and projected revenue streams.

Although, the City increased water and sewer rates during 2005, the City continues to have cash flow problems. The Water and Sewer Funds have not met their reserve requirements in the any of the past three years. The Water, Sewer and Marina Enterprise Funds must have some rate/cost adjustments in order to have a positive cash balance. Without these adjustments, these funds continue to be subsidized by the other funds which have led to a cash flow problem for all City funds.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Mr. Eric Dodson, City Manager, 396 N. State Street, St. Ignace, Michigan 49781.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF ST. IGNACE
STATEMENT OF NET ASSETS

DECEMBER 31, 2005

	Primary Government			
	Governmental Activities	Business-type Activities	Totals	Component Unit
Assets				
Cash and cash equivalents	\$ 635,679	\$ (169,494)	\$ 466,185	\$ 322,360
Investments	-	50,000	50,000	-
Receivables	440,491	176,134	616,625	34,008
Internal balances	83,862	(83,862)	-	-
Inventory	33,466	7,475	40,941	29,044
Due from primary government	-	-	-	38,104
Advance to component unit	12,537	-	12,537	-
Deferred loss on bond refunding	-	118,916	118,916	-
Restricted cash	23,335	432,805	456,140	-
Capital assets not being depreciated	1,377,288	173,195	1,550,483	173,733
Capital assets, net of depreciation	6,962,915	21,144,547	28,107,462	845,739
Total assets	9,569,573	21,849,716	31,419,289	1,442,988
Liabilities				
Accounts payable and accrued expenditures	110,681	34,052	144,733	239,786
Due to component unit	38,104	-	38,104	-
Advance from primary government	-	-	-	12,537
Unearned revenue	-	17,120	17,120	-
Noncurrent liabilities				
Due within one year	707,491	166,000	873,491	62,192
Due in more than one year	2,394,559	6,025,010	8,419,569	569,270
Total liabilities	3,250,835	6,242,182	9,493,017	883,785
Net assets				
Invested in capital assets, net of related debt	5,602,707	15,126,732	20,729,439	388,010
Restricted for				
Debt service	11,697	432,805	444,502	44,105
Expendable perpetual care	23,335	-	23,335	-
Unrestricted	680,999	47,997	728,996	127,088
Total net assets	\$ 6,318,738	\$ 15,607,534	\$ 21,926,272	\$ 559,203

The accompanying notes are an integral part of these financial statements.

CITY OF ST. IGNACE
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2005

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities					
Legislative	\$ 27,662	\$ -	\$ -	\$ -	\$ (27,662)
General government	393,438	44,913	154,817	-	(193,708)
Public safety	428,322	54,795	25,129	-	(348,398)
Public works	621,152	169,391	317,398	-	(134,363)
Culture and recreation	559,014	140,077	499,070	263,422	343,555
Other	945,651	-	-	-	(945,651)
Interest on long-term debt	157,589	-	-	-	(157,589)
Total governmental activities	3,132,828	409,176	996,414	263,422	(1,463,816)
Business-type activities					
Water	827,739	1,045,633	36,245	-	254,139
Sewer	512,057	696,454	5,986	-	190,383
Marina	578,044	495,901	4,765	-	(77,378)
Garbage collection	94,895	95,449	1,174	-	1,728
Golf course	137,759	130,787	20,158	-	13,186
Total business-type activities	2,150,494	2,464,224	68,328	-	382,058
Total primary government	\$ 5,283,322	\$ 2,873,400	\$ 1,064,742	\$ 263,422	\$ (1,081,758)
Component unit	\$ 442,477	\$ 80,731	\$ 74,146	\$ 59,160	\$ (228,440)

Continued...

CITY OF ST. IGNACE
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net (expense) revenue	\$ (1,463,816)	\$ 382,058	\$ (1,081,758)	\$ (228,440)
General revenues				
Property taxes				
General operating	1,279,844	-	1,279,844	197,528
Debt	77,703	-	77,703	107,273
State shared revenues	246,576	-	246,576	-
Interest earnings	12,822	14,985	27,807	4,397
Miscellaneous revenue	34,575	-	34,575	-
Transfers - internal activities	611,246	(611,246)	-	-
Total general revenues and transfers	2,262,766	(596,261)	1,666,505	309,198
Change in net assets	798,950	(214,203)	584,747	80,758
Net assets, beginning of year, as restated	5,519,788	15,821,737	21,341,525	478,445
Net assets, end of year	\$ 6,318,738	\$ 15,607,534	\$ 21,926,272	\$ 559,203

Concluded

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

CITY OF ST. IGNACE

BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2005

ASSETS	General	Recreation Debt	Nonmajor Funds	Total
Cash and cash equivalents	\$ 154,156	\$ 45,175	\$ 347,878	\$ 547,209
Accounts receivable	1,485	-	81,713	83,198
Taxes receivable	150,053	8,992	8,992	168,037
Due from other governmental units	42,956	-	57,404	100,360
Inventory	33,466	-	-	33,466
Lease receivable	-	-	88,896	88,896
Advances to other funds	-	-	99,874	99,874
Advance to component unit	-	-	12,537	12,537
Restricted cash	-	-	23,335	23,335
Total assets	\$ 382,116	\$ 54,167	\$ 720,629	\$ 1,156,912
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 10,396	\$ -	\$ 25,727	\$ 36,123
Accrued expenses	13,573	-	5,383	18,956
Due to component unit	38,104	-	-	38,104
Deferred revenue	137,615	8,511	97,407	243,533
Advances from other funds	16,012	-	-	16,012
Total liabilities	215,700	8,511	128,517	352,728
Fund balances				
Reserved				
Inventory	33,466	-	-	33,466
Police training	5,539	-	-	5,539
Debt service	-	-	11,697	11,697
Perpetual care	-	-	23,335	23,335
Advances	-	-	112,411	112,411
Unreserved				
Designated - Special Revenue Funds - subsequent year's expenditures	-	-	4,920	4,920
Designated - Debt Service	-	45,656	-	45,656
Designated - Capital Projects	-	-	304,619	304,619
Undesignated	127,411	-	-	127,411
Undesignated, reported in Nonmajor Special Revenue Funds	-	-	135,130	135,130
Total fund balances	166,416	45,656	592,112	804,184
Total liabilities and fund balances	\$ 382,116	\$ 54,167	\$ 720,629	\$ 1,156,912

Continued...

CITY OF ST. IGNACE

BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2005

**Reconciliation of fund balances on the balance sheet for governmental activities
to the statement of net assets for governmental activities**

Fund balances - total governmental funds	\$ 804,184
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Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets (net)	7,940,431
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Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add - current year deferred special assessments	243,533
---	---------

Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add - net assets of governmental activities accounted for in internal service funds	429,497
---	---------

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - compensated absences payable	(364,554)
Deduct - bonds payable	(2,690,000)
Deduct - accrued interest on bonds payable	(44,353)

Net assets of governmental activities	<u>\$ 6,318,738</u>
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Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF ST. IGNACE

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2005

	General	Recreation Debt	Nonmajor Funds	Total
Revenues				
Taxes and penalties	\$ 1,056,572	\$ 77,703	\$ 68,635	\$ 1,202,910
Charges for services	56,367	-	312,192	368,559
Federal grant	7,245	-	-	7,245
State revenue	257,502	-	302,286	559,788
Contributions	7,000	239,968	319,087	566,055
Interest	2,048	1,210	9,564	12,822
Miscellaneous	165,618	-	158,169	323,787
Total revenues	1,552,352	318,881	1,169,933	3,041,166
Expenditures				
Legislative	27,662	-	-	27,662
General government	317,101	-	-	317,101
Public safety	392,845	-	7,693	400,538
Public works	117,754	-	40,278	158,032
Culture and recreation	98,766	-	310,454	409,220
Highways and streets	-	-	429,461	429,461
Capital outlay	-	-	347,939	347,939
Other	918,447	-	35,263	953,710
Principal	-	260,000	258,994	518,994
Interest and fiscal charges	-	54,630	94,639	149,269
Total expenditures	1,872,575	314,630	1,524,721	3,684,264
Revenues over (under) expenditures	(320,223)	4,251	(354,788)	(643,098)
Other financing sources (uses)				
Transfers in	513,552	-	563,830	1,077,382
Transfers out	(165,919)	-	(232,307)	(398,226)
Total other financing sources	347,633	-	331,523	679,156
Change in fund balances	27,410	4,251	(23,265)	8,396
Fund balances, beginning of year, as restated	139,006	41,405	615,377	795,788
Fund balances, end of year	\$ 166,416	\$ 45,656	\$ 592,112	\$ 804,184

Continued...

CITY OF ST. IGNACE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2005

**Reconciliation of the statement of revenues, expenditures and change in fund balance of
governmental funds to the statement of activities for governmental activities**

Change in fund balances - total governmental funds	\$	8,396
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Amounts reported for governmental activities in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay		313,818
Deduct - depreciation expense		(214,131)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Add - change in deferred special assessments		243,533
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term liabilities		518,994
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Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The net revenue (expense) of internal service funds is reported with governmental activities.

Deduct - operating loss from governmental activities accounted for internal service funds		(27,870)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct - increase in compensated absences		(4,026)
Deduct: internal activities accounted for in internal service funds		(34,126)
Deduct - current year increase in accrued interest		(5,638)

Change in net assets of governmental activities	\$	798,950
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Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF ST. IGNACE

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2005

	Budget		Actual	Variance With Amended Budget Positive (Negative)
	Original	Amended		
Revenues				
Taxes and penalties	\$ 1,069,000	\$ 1,069,000	\$ 1,056,572	\$ (12,428)
Charges for services	44,250	44,250	56,367	12,117
Federal revenue	-	-	7,245	7,245
State revenue	251,500	251,500	257,502	6,002
Contributions	16,500	16,500	7,000	(9,500)
Interest	-	-	2,048	2,048
Miscellaneous	145,800	145,800	165,618	19,818
Total revenues	1,527,050	1,527,050	1,552,352	25,302
Expenditures				
Legislative	33,000	33,000	27,662	5,338
General government	308,250	308,250	317,101	(8,851)
Public safety	382,360	382,360	392,845	(10,485)
Public works	138,800	138,800	117,754	21,046
Culture and recreation	107,860	107,860	98,766	9,094
Other	887,050	887,050	918,447	(31,397)
Total expenditures	1,857,320	1,857,320	1,872,575	(15,255)
Revenues under expenditures	(330,270)	(330,270)	(320,223)	10,047
Other financing sources (uses)				
Transfers in	510,000	510,000	513,552	3,552
Transfers out	(179,730)	(179,730)	(165,919)	13,811
Total other financing sources	330,270	330,270	347,633	17,363
Change in fund balance	-	-	27,410	27,410
Fund balance, beginning of year, as restated	139,006	139,006	139,006	-
Fund balance, end of year	\$ 139,006	\$ 139,006	\$ 166,416	\$ 27,410

The accompanying notes are an integral part of these financial statements.

CITY OF ST. IGNACE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

DECEMBER 31, 2005

	Water	Sewer	Marina	Nonmajor Enterprise Funds
Assets				
Current assets				
Cash and cash equivalents	\$ -	\$ (229,440)	\$ (38,817)	\$ 98,763
Investments	-	-	-	50,000
Accounts receivable	93,133	71,798	-	11,203
Inventory	-	-	7,475	-
Total current assets	93,133	(157,642)	(31,342)	159,966
Noncurrent assets				
Property and equipment, net of accumulated depreciation	7,603,714	5,893,417	7,680,630	139,981
Unamortized bond issuance costs	81,416	-	-	-
Deferred loss on bond refunding	37,500	-	-	-
Restricted cash	415,685	-	17,120	-
Total noncurrent assets	8,138,315	5,893,417	7,697,750	139,981
Total assets	8,231,448	5,735,775	7,666,408	299,947
Liabilities				
Current liabilities				
Accounts payable	6,505	7,880	2,049	7,794
Accrued expenses	4,195	2,110	110	-
Customer deposits	3,409	-	-	-
Unearned revenue	-	-	17,120	-
Current portion of bonds and notes payable	156,000	10,000	-	-
Total current liabilities	170,109	19,990	19,279	7,794
Long-term debt				
Advance from other funds	83,862	-	-	-
Bonds payable, net of current portion	5,257,000	768,010	-	-
Notes payable, net of current portion	-	-	-	-
Total long-term debt	5,340,862	768,010	-	-
Total liabilities	5,510,971	788,000	19,279	7,794
Net assets				
Invested in capital assets, net of related debt	2,346,714	5,125,407	7,680,630	139,981
Restricted for debt service	415,685	-	-	-
Unrestricted (deficit)	(41,922)	(177,632)	(33,501)	152,172
Total net assets	\$ 2,720,477	\$ 4,947,775	\$ 7,647,129	\$ 292,153

The accompanying notes are an integral part of these financial statements.

Total Enterprise Funds	Internal Service Funds
\$ (169,494)	\$ 88,470
50,000	-
176,134	-
7,475	-
64,115	88,470

21,317,742	399,772
81,416	-
37,500	-
432,805	-
21,869,463	399,772
21,933,578	488,242

24,228	9,535
6,415	1,714
3,409	0
17,120	-
166,000	19,159
217,172	30,408

83,862	-
6,025,010	-
-	28,337
6,108,872	28,337
6,326,044	58,745

15,292,732	352,276
415,685	-
(100,883)	77,221
\$ 15,607,534	\$ 429,497

CITY OF ST. IGNACE

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2005

	Water	Sewer	Marina	Nonmajor Enterprise Funds
Operating revenues				
Sales and charges for services	\$ -	\$ -	\$ 495,901	\$ 226,236
Sales and charges for services pledged as security for revenue bonds	1,045,633	696,454	-	-
Total operating revenues	1,045,633	696,454	495,901	226,236
Operating expenses				
Personal services	-	-	59,582	49,620
Contracted services	-	-	28,801	102,975
General and administrative	63,652	54,802	-	-
Repair and maintenance	-	-	-	15,708
Supplies	-	-	234,833	9,181
Line maintenance	94,505	32,465	-	-
Plant operations	250,400	207,268	-	-
Depreciation and amortization	222,732	182,062	205,920	26,063
Miscellaneous	-	-	48,908	29,107
Total operating expenses	631,289	476,597	578,044	232,654
Operating income (loss)	414,344	219,857	(82,143)	(6,418)
Non-operating revenues (expenses)				
Interest income	6,599	1,557	4,344	2,485
Interest expense	(196,450)	(35,460)	-	-
Miscellaneous revenue	36,245	5,986	4,765	21,332
Total non-operating revenues (expenses)	(153,606)	(27,917)	9,109	23,817
Income (loss) before transfers	260,738	191,940	(73,034)	17,399
Other financing sources (uses)				
Transfers in	3,000	-	-	-
Transfers out	(178,828)	(323,438)	(93,383)	(18,597)
Total other financing uses	(175,828)	(323,438)	(93,383)	(18,597)
Change in net assets	84,910	(131,498)	(166,417)	(1,198)
Net assets, beginning of year, as restated	2,635,567	5,079,273	7,813,546	293,351
Net assets, end of year	\$ 2,720,477	\$ 4,947,775	\$ 7,647,129	\$ 292,153

The accompanying notes are an integral part of these financial statements.

Total Enterprise Funds	Internal Service Funds
\$ 722,137	\$ 304,647
1,742,087	-
2,464,224	304,647
109,202	92,349
131,776	5,857
118,454	-
15,708	57,915
244,014	61,840
126,970	-
457,668	-
636,777	76,838
78,015	37,718
1,918,584	332,517
545,640	(27,870)
14,985	1,258
(231,910)	(2,049)
68,328	34,575
(148,597)	33,784
397,043	5,914
3,000	8,000
(614,246)	(75,910)
(611,246)	(67,910)
(214,203)	(61,996)
15,821,737	491,493
\$ 15,607,534	\$ 429,497

CITY OF ST. IGNACE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Water</u>	<u>Sewer</u>	<u>Marina</u>	<u>Non-major Enterprise Funds</u>
Cash flows from operating activities				
Cash collected from customers	\$ 1,028,196	\$ 680,771	\$ 496,273	\$ 226,000
Cash collected from other funds	-	-	-	-
Cash paid for employee wages and benefits	(195,212)	(113,594)	(59,582)	(49,620)
Cash paid for other operating and administrative expenses	(44,458)	(155,699)	(301,099)	(156,719)
Net cash provided by operating activities	<u>788,526</u>	<u>411,478</u>	<u>135,592</u>	<u>19,661</u>
Cash flows from non-capital financing activities				
Transfers in	3,000	-	-	-
Transfers out	(178,828)	(323,438)	(93,383)	(18,597)
Other income	36,245	5,986	4,765	21,332
Net cash provided by (used in) non-capital financing activities	<u>(139,583)</u>	<u>(317,452)</u>	<u>(88,618)</u>	<u>2,735</u>
Cash flows from capital and related financing activities				
Interest expense	(196,450)	(35,460)	-	-
Principal payments	(130,000)	(10,000)	-	-
Proceeds from the sale of equipment	-	-	-	-
Net cash provided by (used) in capital and related financing activities	<u>(326,450)</u>	<u>(45,460)</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities				
Sale of investments	-	-	-	2,225
Interest revenue	6,599	1,557	4,344	2,485
Net cash provided by investing activities	<u>6,599</u>	<u>1,557</u>	<u>4,344</u>	<u>4,710</u>
Net increase in cash and cash equivalents	<u>329,092</u>	<u>50,123</u>	<u>51,318</u>	<u>27,106</u>
Cash and cash equivalents, beginning of year	86,593	(279,563)	(90,135)	71,657
Cash and cash equivalents, including restricted cash, end of year	415,685	(229,440)	(38,817)	98,763
Restricted cash, end of year	415,685	-	-	-
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ (229,440)</u>	<u>\$ (38,817)</u>	<u>\$ 98,763</u>

Total Enterprise Funds	Internal Service Funds
\$ 2,431,240	\$ -
-	277,842
(418,008)	(92,349)
(657,975)	(178,238)
1,355,257	7,255
3,000	8,000
(614,246)	(75,910)
68,328	34,575
(542,918)	(33,335)
(231,910)	(2,049)
(140,000)	(18,489)
-	28,602
(371,910)	8,064
2,225	48,000
14,985	1,258
17,210	49,258
457,639	31,242
(211,448)	57,228
246,191	88,470
415,685	-
\$ (169,494)	\$ 88,470

Continued...

CITY OF ST. IGNACE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Water</u>	<u>Sewer</u>	<u>Marina</u>	<u>Nonmajor Enterprise Funds</u>
Operating income (loss)	\$ 414,344	\$ 219,857	\$ (82,143)	\$ (6,418)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation and amortization	222,732	182,062	205,920	26,063
Gain on sale of property and equipment	-	-	-	-
Changes in operating assets and liabilities which provided (used) cash				
Cash held by fiscal agent	200,504	-	-	-
Accounts receivable	(17,437)	(15,683)	372	(236)
Due from other funds	-	24,291	-	3,396
Inventory	-	-	9,325	-
Accounts payable	(3,753)	892	2,008	360
Accrued expenses	258	59	110	-
Customer deposits	(435)	-	-	-
Due to other funds	(27,687)	-	-	(3,504)
Net cash provided by operating activities	<u><u>\$ 788,526</u></u>	<u><u>\$ 411,478</u></u>	<u><u>\$ 135,592</u></u>	<u><u>\$ 19,661</u></u>

The accompanying notes are an integral part of these financial statements.

Total Enterprise Funds		Internal Service Funds	
\$	545,640	\$	(27,870)
	636,777		76,838
	-		(28,602)
	200,504		-
	(32,984)		1,797
	27,687		-
	9,325		-
	(493)		(15,413)
	427		505
	(435)		-
	(31,191)		-
\$	1,355,257	\$	7,255

Concluded

CITY OF ST. IGNACE
STATEMENT OF FIDUCIARY NET ASSETS
CURRENT TAX COLLECTION - AGENCY FUND

DECEMBER 31, 2005

Assets

Cash and cash equivalents	\$ 201,351
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Liabilities

Due to other governmental units	\$ 201,351
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The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the *City of St. Ignace* (the “City”) and its component units. The component units discussed below are included in the City’s reporting entity because of the significance of their operational or financial relationship with the City.

St. Ignace Building Authority - The St. Ignace Building Authority is a blended component unit of the City.

St. Ignace Downtown Development Authority - The Downtown Development Authority (the “DDA”) is a discretely presented component unit of the City. The component unit columns in the combined financial statements include the financial data of the DDA. This unit is reported in a separate column to emphasize that it is legally separate from the City. The members of the governing Board of the DDA are appointed by the City Council. The budgets and expenditures of the DDA must be approved by the City Council. The City also has the ability to significantly influence operations of the DDA.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from a certain legally separate *component unit* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Fund Financial Statements. The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary* and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Recreation Debt Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt related to construction of the recreation center.

The City reports the following major enterprise funds:

The *Water Fund* accounts for the operation, maintenance and development of water facilities.

The *Sewer Fund* accounts for the operation, maintenance and development of sewer facilities.

The *Marina Fund* accounts for the operation, maintenance and development of marina facilities.

Additionally, the City reports the following fund types:

Special Revenue Funds. These funds account for revenue sources that are accumulated for specific purposes not including major capital projects.

Debt Service Funds. These funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Capital Projects Funds. These funds account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

Permanent Fund. The Cemetery Perpetual Care Fund is the City's Permanent Fund. The principal portion of these funds must stay intact, but the interest earnings are used to provide for maintenance of the City's cemetery.

Enterprise Funds. These funds account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds. These funds account for operations that provide machinery and equipment, office equipment and data processing services to other departments of the City on a cost-reimbursement basis.

Agency Fund. This fund accounts for assets held for other governments in an agency capacity.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. The agency fund also uses the accrual basis of accounting but does not have a measurement focus.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principle operating revenues of the City's enterprise and internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, or within one year for reimbursement-based grants. Property taxes, state revenue and interest are considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

D. Assets, Liabilities and Equity

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Investments are reported at fair value.

2. Receivables and payables

All receivables are reported at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property taxes

The City's property taxes are levied each July 1 and December 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through February 28; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Mackinac County. Assessed values, as established annually by the City and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value.

Property taxes are recognized in the fiscal year in which they are levied.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

3. *Inventories*

Inventory maintained by the General Fund and Marina Enterprise Fund is valued at cost using the first-in, first-out method. Inventory of expendable supplies in other funds have not been recorded and the amount of any such inventory is not considered material. The cost value of such inventory was recorded as an expenditure at the time of purchase.

4. *Restricted cash*

Certain resources are set aside for repayment of the City's Water Enterprise Fund bonds and are classified as restricted cash on the Statement of Net Assets because their use is limited by applicable bond covenants.

The City is not in compliance with its bond covenants. See Note #3F.

Other resources are set aside for the erection of a lighthouse at the marina facility and are classified as restricted cash on the Statement of Net Assets because their use is limited by a third party.

5. *Capital assets*

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	15-40
Land improvements	10-15
Marina	7-40
Equipment	5-25
Vehicles	5-20
Water and sewer system	20-75

6. *Compensated absences*

It is the City's policy to permit employees to accumulate earned but unused sick and vacation time benefits, subject to certain limitations. All sick and vacation time pay is accrued when incurred in the government-wide statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

7. *Long-term obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental funds report the face amount of debt issued as other financing sources.

8. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General and special revenue funds. All annual appropriations lapse at fiscal year end.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

B. Excess of expenditures over appropriations

	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Variance</u>
General Fund			
General government	\$ 308,250	\$ 317,101	\$ 8,851
Public safety	382,360	392,845	10,485
Other	887,050	918,447	31,397

3. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and cash equivalents and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets is as follows:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Total</u>
Statement of Net Assets			
Cash and cash equivalents	\$ 466,185	\$ 322,360	\$ 788,545
Investments	50,000	-	50,000
Restricted cash	<u>456,140</u>	<u>-</u>	<u>456,140</u>
Total Statement of Net Assets	<u>\$ 972,325</u>	<u>\$ 322,360</u>	1,294,685
Statement of Fiduciary Net Assets			
Cash and cash equivalents			<u>201,351</u>
Total deposits and investments			<u>\$ 1,496,036</u>

A reconciliation of cash and investments as shown in the financial statements to the City's deposits and investments is as follows:

Bank deposits (checking accounts and savings accounts)	\$ 1,444,195
Investments (CDs)	50,000
Cash on hand	<u>1,841</u>
Total deposits and investments	<u>\$ 1,496,036</u>

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The City has no investments for which ratings are required.

Custodial credit risk deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end, \$1,472,607 of the City's bank balance of \$1,622,607 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The City is authorized by statute to invest surplus funds in the following:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts or a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940, limited to mutual fund securities whose intention is to maintain a net asset value of \$1.00 per share.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

The City Council is authorized to designate depositories for City funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

The City's deposits are in accordance with statutory authority.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

B. Receivables

The composition of receivables is as follows as of December 31, 2005:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Unit</u>
Accounts receivable	\$ 83,198	\$ 176,134	\$ -
Taxes receivable	168,037	-	34,008
Due from other governmental units	100,360	-	-
Lease receivable			
Due within one year	2,745	-	-
Due after one year	<u>86,151</u>	<u>-</u>	<u>-</u>
Total receivables	<u>\$ 440,491</u>	<u>\$ 176,134</u>	<u>\$ 34,008</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>
Property taxes receivable (General Fund)	\$ 137,615
Property taxes receivable (Recreation Debt Service Fund)	8,511
Property taxes receivable (Nonmajor Governmental Fund types)	8,511
Lease receivable	<u>88,896</u>
Total deferred revenue	<u>\$ 243,533</u>

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

C. Capital assets

Capital asset activity was as follows for the year ended December 31, 2005:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,377,288	\$ -	\$ -	\$ 1,377,288
Construction-in-process	<u>1,289,251</u>	<u>265,880</u>	<u>(1,555,131)</u>	<u>-</u>
Total non-depreciated assets	<u>2,666,539</u>	<u>265,880</u>	<u>(1,555,131)</u>	<u>1,377,288</u>
Capital assets being depreciated				
Buildings	5,126,600	1,563,557	-	6,690,157
Land improvements	314,206	-	-	314,206
Equipment	2,031,601	39,512	(57,900)	2,013,213
Vehicles	<u>563,035</u>	<u>-</u>	<u>(31,129)</u>	<u>531,906</u>
Total capital assets being depreciated	<u>8,035,442</u>	<u>1,603,069</u>	<u>(89,029)</u>	<u>9,549,482</u>
Less accumulated depreciation for				
Buildings	(778,752)	(133,398)	-	(912,150)
Land improvements	(52,021)	(10,755)	-	(62,776)
Equipment	(1,120,465)	(107,878)	57,900	(1,170,443)
Vehicles	<u>(433,389)</u>	<u>(38,938)</u>	<u>31,129</u>	<u>(441,198)</u>
Total accumulated depreciation	<u>(2,384,627)</u>	<u>(290,969)</u>	<u>89,029</u>	<u>(2,586,567)</u>
Total capital assets being depreciated, net	<u>5,650,815</u>	<u>1,312,100</u>	<u>-</u>	<u>6,962,915</u>
Governmental activities capital assets, net	<u>\$ 8,317,354</u>	<u>\$ 1,577,980</u>	<u>\$(1,555,131)</u>	<u>\$ 8,340,203</u>

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets not being depreciated				
Land	\$ 173,195	\$ -	\$ -	\$ 173,195
Capital assets being depreciated				
Buildings	8,341,484	-	-	8,341,484
Machinery and equipment	356,176	-	-	356,176
Water	10,323,882	-	-	10,323,882
Sewer	746,452	-	-	746,452
Marina	<u>8,225,634</u>	<u>-</u>	<u>-</u>	<u>8,225,634</u>
Total capital assets being depreciated	<u>27,993,628</u>	<u>-</u>	<u>-</u>	<u>27,993,628</u>
Less accumulated depreciation for				
Buildings	(2,633,865)	(176,293)	-	(2,810,158)
Machinery and equipment	(291,859)	(17,018)	-	(308,877)
Water	(2,552,274)	(214,804)	-	(2,767,078)
Sewer	(402,099)	(15,094)	-	(417,193)
Marina	<u>(340,135)</u>	<u>(205,640)</u>	<u>-</u>	<u>(545,775)</u>
Total accumulated depreciation	<u>(6,220,232)</u>	<u>(628,849)</u>	<u>-</u>	<u>(6,849,081)</u>
Total capital assets being depreciated, net	<u>21,773,396</u>	<u>(628,849)</u>	<u>-</u>	<u>21,144,547</u>
Business-type activities capital assets, net	<u>\$21,946,591</u>	<u>\$ (628,849)</u>	<u>\$ -</u>	<u>\$21,317,742</u>

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities

General government	\$ 19,605
Public safety	26,508
Public works	24,049
Culture and recreation	143,969
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	<u>76,838</u>

Total depreciation expense – governmental activities **\$ 290,969**

Business-type activities

Water	\$ 214,804
Sewer	182,062
Marina	205,920
Golf course	<u>26,063</u>

Total depreciation expense – business-type activities **\$ 628,849**

Component Unit	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 173,733	\$ -	\$ -	\$ 173,733
Capital assets being depreciated				
Buildings	180,950	67,894	-	248,844
Equipment	162,107	-	-	162,107
Land improvements	<u>1,023,199</u>	<u>16,360</u>	<u>-</u>	<u>1,039,559</u>
Total capital assets being depreciated	<u>1,366,256</u>	<u>84,254</u>	<u>-</u>	<u>1,450,510</u>
Less accumulated depreciation for				
Buildings	(58,567)	(8,384)	-	(66,951)
Land improvements	(471,709)	(49,925)	-	(521,634)
Equipment	<u>(10,956)</u>	<u>(5,230)</u>	<u>-</u>	<u>(16,186)</u>
Total accumulated depreciation	<u>(541,232)</u>	<u>(63,539)</u>	<u>-</u>	<u>(604,771)</u>

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated, net	\$ 825,024	\$ 20,715	\$ -	\$ 845,739
Component unit capital assets, net	<u>\$ 998,757</u>	<u>\$ 20,715</u>	<u>\$ -</u>	<u>\$ 1,019,472</u>

Unallocated depreciation expense for the year ended December 31, 2005 was \$63,539.

D. Accounts payable and accrued expenditures

The composition of accounts payable and accrued expenses is as follows as of December 31, 2005:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Unit</u>
Accounts payable	\$ 90,011	\$ 24,228	\$ 21,847
Accrued expenses	20,670	6,415	11,734
Customer deposits	-	3,409	-
Due to other governmental units	<u>-</u>	<u>-</u>	<u>206,205</u>
Total accounts payable and accrued expenditures	<u>\$ 110,681</u>	<u>\$ 34,052</u>	<u>\$ 239,786</u>

E. Interfund transfers, receivables and payables

Advances to/from other funds consist of advances to the General Fund and Water Enterprise Fund of \$16,012 and \$83,862, respectively, from the Capital Improvement Trust Capital Project Fund.

Advances to/from component unit consist of advances to the DDA Property Management Fund of \$12,537 from the Capital Improvement Trust Capital Project Fund.

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

Interfund transfers consisted of the following for the year ended December 31, 2005:

<u>Transfer from</u>	<u>Transfer to</u>				<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Water</u>	<u>Internal Service Funds</u>	
General Fund	\$ -	\$ 165,919	\$ -	-	\$ 165,919
Water	150,050	28,778	-	-	178,828
Sewer	85,152	238,286	-	-	323,438
Marina	25,983	67,400	-	-	93,383
Nonmajor Governmental Funds	165,860	63,447	3,000	-	232,307
Nonmajor Enterprise Funds	18,597	-	-	-	18,597
Internal Service Funds	<u>67,910</u>	<u>-</u>	<u>-</u>	<u>8,000</u>	<u>75,910</u>
Subtotal transfers in	<u>\$ 513,552</u>	<u>\$ 563,830</u>	<u>\$ 3,000</u>	<u>\$ 8,000</u>	<u>\$1,088,382</u>

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them, (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

F. Long-term debt

A summary of long-term debt and transactions related thereto is as follows for the year ended December 31, 2005:

	<u>Balance January 1, 2005</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance December 31, 2005</u>	<u>Due Within 1 Year</u>
<u>Primary Government</u>					
Governmental activities					
1998 General Obligation Unlimited Tax Bonds maturing serially to 2013 in annual amounts ranging from \$80,000 to \$255,000 and bearing interest at 4.0%.	\$1,185,000	\$ -	\$ (235,000)	\$ 950,000	\$ 255,000
2001 Building Authority Marina Bonds maturing serially to 2021 in annual amounts ranging from \$25,000 to \$100,000 and bearing interest ranging from 5.1% to 6.0%.	920,000	-	(25,000)	895,000	25,000

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance January 1, 2005</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance December 31, 2005</u>	<u>Due Within 1 Year</u>
1997 Advance Refunding of Series 1986A Bonds maturing serially to 2006 in annual amounts of \$170,000 and bearing interest at 4.74%.	\$ 325,000	\$ -	(155,000)	\$ 170,000	\$ 170,000
1997 Advance Refunding of Series 1986A Bonds maturing serially to 2006 in annual amounts of \$45,000 and bearing interest at 4.74%.	90,000	-	(45,000)	45,000	45,000
1993 Advance Refunding of 1986 issue maturing serially to 2016 in annual amounts ranging from \$15,000 to \$30,000 and bearing interest at 5.642%.	265,000	-	(15,000)	250,000	15,000
2003 Recreation Center Improvement Bonds maturing serially to 2012 in annual amounts ranging from \$25,000 to \$35,000 and bearing interest ranging from 2.4% to 3.1%.	240,000	-	(25,000)	215,000	25,000

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance January 1, 2005</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance December 31, 2005</u>	<u>Due Within 1 Year</u>
1993 Advance Refunding of 1986 issue maturing serially to 2016 in annual amounts ranging from \$10,000 to \$20,000 and bearing interest at 5.672%.	\$ 175,000	\$ -	\$ (10,000)	\$ 165,000	\$ 10,000
Installment loan to First National Bank payable in monthly installments of \$1,712 through 2008 including interest charged at 3.557%.	65,987	-	(18,491)	47,496	19,159
Installment loan to First National Bank repaid during 2005.	8,994	-	(8,994)	-	-
Accumulated sick and vacation pay.	<u>360,528</u>	<u>147,358</u>	<u>(143,332)</u>	<u>364,554</u>	<u>143,332</u>
Total governmental activities	<u>3,635,509</u>	<u>147,358</u>	<u>(680,817)</u>	<u>3,102,050</u>	<u>707,491</u>

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance January 1, 2005</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance December 31, 2005</u>	<u>Due Within 1 Year</u>
Business-type activities					
2002 Series Water Supply System Revenue Refunding Bonds maturing serially to 2020 in annual amounts ranging from \$125,000 to \$280,000 and bearing interest ranging from 3.25% to 5.25%.	\$2,995,000	\$ -	\$ (130,000)	\$2,865,000	\$ 125,000
2000 Series Water Supply System Revenue Bonds maturing serially to 2040 in annual amounts ranging from \$31,000 to \$142,000 and bearing interest of 4.5%.	2,548,000	-	-	2,548,000	31,000
1999 A Series Sewage Disposal Revenue Bonds maturing serially to 2038 in annual amounts ranging from \$9,000 to \$38,000 and bearing interest of 4.5%.	694,000	-	(9,000)	685,000	9,000

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance January 1, 2005</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance December 31, 2005</u>	<u>Due Within 1 Year</u>
1999 B Series Sewage Disposal Revenue Bonds maturing serially to 2038 in annual amounts ranging from \$1,000 to \$8,010 and bearing interest of 4.5%.	\$ 94,010	\$ -	\$ (1,000)	\$ 93,010	\$ 1,000
Total business-type activities	<u>6,331,010</u>	<u>-</u>	<u>(140,000)</u>	<u>6,191,010</u>	<u>166,000</u>
Total primary government	<u>\$9,966,519</u>	<u>\$ 147,358</u>	<u>\$ (820,817)</u>	<u>\$9,293,060</u>	<u>\$ 873,491</u>
<u>Discretely Presented Component Unit - DDA</u>					
1994 Downtown Development Bonds maturing serially to 2013 in annual amounts ranging from \$50,000 to \$100,000 and bearing interest from 6.40% to 6.8%.	\$ 600,000	\$ -	\$ (50,000)	\$ 550,000	50,000
1996 Special Assessment Bonds matured during 2005.	15,000	-	(15,000)	-	-

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

	Balance January 1, 2005	Additions	(Reductions)	Balance December 31, 2005	Due Within 1 Year
Installment land contract by Downtown Development Authority payable in semi-annual payments of \$9,435 through 2011, including 8.5% interest.	\$ 92,680	\$ -	\$ (11,218)	\$ 81,462	\$ 12,192
Total component unit	<u>\$ 707,680</u>	<u>\$ -</u>	<u>\$ (76,218)</u>	<u>\$ 631,462</u>	<u>\$ 62,192</u>

The City's Water and Sewer Enterprise Funds revenue bonds include covenants requiring the City and maintain various cash reserve accounts that total approximately \$367,000 and \$215,000, respectively. At December 31, 2005 the City's Water Fund was has excess reserves of approximately \$49,000; however, the City's Sewer Fund was under reserved by approximately \$215,000. Accrued compensated absences are generally liquidated by the Vacation and Sick Pay Special Revenue Fund for all governmental, business-type activities and the component unit.

Annual debt service requirements to maturity for the above obligations except for accrued compensated absences are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 564,159	\$ 122,772	\$ 166,000	\$ 284,109
2007	184,852	103,293	169,000	277,421
2008	173,485	95,673	195,000	269,847
2009	175,000	88,317	199,000	261,448
2010	210,000	80,266	194,000	252,698
2011-2015	885,000	253,474	1,196,000	1,115,990
2016-2020	445,000	93,018	1,616,000	775,304
2021-2025	100,000	5,800	444,000	514,487
2026-2030	-	-	553,000	405,091
2031-2035	-	-	690,000	268,921
2036-2040	<u> </u>	<u> </u>	<u>769,010</u>	<u>101,162</u>
	<u>\$ 2,737,496</u>	<u>\$ 842,613</u>	<u>\$ 6,191,010</u>	<u>\$ 4,526,478</u>

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

Total interest expense for the City for the year ending December 31, 2005 was \$324,970.

	Component Unit	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 62,192	\$ 42,153
2007	63,251	37,819
2008	64,401	33,344
2009	90,651	27,869
2010	92,010	21,410
2011-2013	<u>258,957</u>	<u>27,585</u>
	<u>\$ 631,462</u>	<u>\$ 190,180</u>

Total interest expense for the component unit for the year ended December 31, 2005 was \$47,162.

In prior years, the City defeased various general obligation bonds by placing the proceeds of new bonds in an escrow for the purpose of generating resources for all future debt service payments on the old bonds. As a result, the escrow account's assets and the defeased bonds have not been included in the City's financial statements. As of December 31, 2005 \$2,860,000 of bonds outstanding are considered defeased.

G. Prior Period Adjustments

During the year ended December 31, 2005, a prior period adjustment in the amount of \$99,941 was necessary to properly account for the overstating of property tax revenue in the General Fund. Additionally, a prior period adjustment in the amount of \$38,104 was necessary to record funds due to the DDA component unit, as the DDA had paid a City obligation and the State of Michigan is requiring the DDA return the funds as it was not a DDA obligation. The effects on the General Fund fund balance were as follows:

Fund balance, beginning of year, as previously stated	\$ 277,051
Prior period adjustment – property tax revenue	(99,941)
Prior period adjustment – amount due to the component unit	<u>(38,104)</u>
Fund balance, beginning of year, as restated	<u>\$ 139,006</u>

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

During the year ended December 31, 2005, a prior period adjustment in the amount of \$6,549 was necessary to properly account for the overstating of property tax revenue in the Recreation Debt Debt Service Fund. The effect on the Recreation Debt Fund fund balance was as follows:

Fund balance, beginning of year, as previously stated	\$ 47,954
Prior period adjustment	<u>(6,549)</u>
Fund balance, beginning of year, as restated	<u>\$ 41,405</u>

During the year ended December 31, 2005, a prior period adjustment in the amount of \$6,549 was necessary to properly account for the overstating of property tax revenue in the Recreation Program Special Revenue Fund. The effect on the Recreation Program Fund fund balance was as follows:

Fund balance, beginning of year, as previously stated	\$ 16,845
Prior period adjustment	<u>(6,549)</u>
Fund balance, beginning of year, as restated	<u>\$ 10,296</u>

During the year ended December 31, 2005, a prior period adjustment in the amount of \$168,101 was necessary to properly record the amount due to other governmental units, specifically the State of Michigan, based on an over-capture of taxes which occurred in multiple fiscal years in the DDA component unit. Additionally, a prior period adjustment in the amount of \$38,104 was necessary to properly record the amount due from the General Fund and due to other governmental units, specifically the State of Michigan, for the City obligation paid in prior fiscal years with DDA captured funds. The effects on the DDA component unit net assets were as follows:

Net assets, beginning of year, as previously stated	\$ 684,650
Prior period adjustment – property tax revenue	(168,101)
Prior period adjustment – amount due from the General Fund	38,104
Prior period adjustment – amount due to other governmental units	<u>(38,104)</u>
Net assets, beginning of year, as restated	<u>\$ 478,445</u>

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

4. OTHER INFORMATION

A. Defined Benefit Pension Plan

Plan Description

The City's defined benefit pension plan provides retirement, death and disability benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The City is required to contribute at an actuarially determined rate; the current rates range from 11.47% to 21.28% of annual covered payroll. City employees are not required to contribute to the plan. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

Annual Pension Cost

For the year ended December 31, 2005, the City's annual MERS pension cost of \$208,923 was equal to the City's required and actual contributions. The required contribution was determined using the entry age actuarial cost method. The significant actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) additional projected salary increases of 4.5% per year plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases, and (c) an inflationary rate of 4.5%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2004, the date of the last actuarial valuation, was 30 years.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

Six-Year Trend Information

Schedule of Employer Contributions

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/00	\$ 155,749	100%	\$ -
12/31/01	109,262	100%	-
12/31/02	157,475	100%	-
12/31/03	179,817	100%	-
12/31/04	213,667	100%	-
12/31/05	208,923	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) -Entry Age (b)</u>	<u>Under-funded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/99	\$2,831,915	\$3,621,214	\$ 789,299	78%	\$ 997,411	79%
12/31/00	3,187,139	4,139,834	952,695	77%	1,016,227	94%
12/31/01	3,482,362	4,574,719	1,092,357	76%	1,023,028	107%
12/31/02	3,630,823	5,004,150	1,373,327	73%	1,071,763	128%
12/31/03	3,967,404	5,452,330	1,484,926	73%	1,142,627	130%
12/31/04	4,294,701	6,120,823	1,826,122	70%	1,233,866	148%

B. Risk Management

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The City joined together with other governments and created a public entity risk pool currently operating as a common risk management and insurance program. The government pays an annual premium to the pool for its automobile, property, and general liability insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$25,000 for each insured event.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The City is unable to provide an estimate of the amounts of any potential additional assessments.

The City continues to carry commercial insurance for all other risks of loss. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three years.

C. Lease Receivable

During the year, the City entered into an agreement with the St. Ignace Visitor's Bureau whereby the St. Ignace Visitor's Bureau is to make payments of \$593.96 per month towards the purchase of the City's library that they are no longer using. The note bears interest at 5% per year, with payments due on the 6th day of each month and a principal balance of \$90,000. The City received principal and interest payments of \$1,104 and \$1,866, respectively, for the current fiscal year. The future payments to be received are as follows:

	<u>Principal</u>	<u>Interest</u>
2006	\$ 2,745	\$ 4,382
2007	2,885	4,242
2008	3,033	4,094
2009	3,188	3,939
2010	3,351	3,776
2011-2015	19,511	16,126
2016-2020	25,040	10,597
2021-2025	<u>29,143</u>	<u>3,527</u>
	<u>\$ 88,896</u>	<u>\$ 50,683</u>

D. Other Matters

A deficit fund balance in the Silver Mountain Ski Area Special Revenue Fund and the Community Center Special Revenue Fund of \$1,397 and \$4,262, respectively, exists at December 31, 2005. The City is in the process of submitting a deficit elimination plan to the Department of Treasury, in accordance with Public Act 275 of 1980.

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SUPPLEMENTARY INFORMATION

CITY OF ST. IGNACE

**DETAIL SCHEDULE OF REVENUES - BUDGET AND ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED DECEMBER 31, 2005

	Budget		Actual	Variance With Amended Budget Positive (Negative)
	Original	Amended		
Revenues				
Taxes and penalties	\$ 1,069,000	\$ 1,069,000	\$ 1,056,572	\$ (12,428)
Charge for services	44,250	44,250	56,367	12,117
Federal revenue	-	-	7,245	7,245
State revenue	251,500	251,500	257,502	6,002
Contributions	16,500	16,500	7,000	(9,500)
Interest revenue	-	-	2,048	2,048
Miscellaneous revenue	145,800	145,800	165,618	19,818
Total revenues	\$ 1,527,050	\$ 1,527,050	\$ 1,552,352	\$ 25,302

CITY OF ST. IGNACE

**DETAIL SCHEDULE OF EXPENDITURES AND OTHER USES
BUDGET AND ACTUAL - GENERAL FUND**

FOR THE YEAR ENDED DECEMBER 31, 2005

	Budget		Actual	Variance With Amended Budget Positive (Negative)
	Original	Amended		
Legislative				
City council	\$ 33,000	\$ 33,000	\$ 27,662	\$ 5,338
General government				
City manager	75,750	75,750	77,230	(1,480)
Elections	3,050	3,050	2,310	740
Treasurer	65,750	65,750	67,841	(2,091)
Clerk	69,050	69,050	68,270	780
Board of review	1,800	1,800	2,113	(313)
Building and grounds	47,250	47,250	49,694	(2,444)
City attorney	34,600	34,600	37,405	(2,805)
Professional services	11,000	11,000	12,238	(1,238)
Total general government	308,250	308,250	317,101	(8,851)
Public safety				
Planning	1,500	1,500	663	837
Police department	274,510	274,510	283,885	(9,375)
Fire department	104,450	104,450	107,300	(2,850)
Safety and health	1,900	1,900	997	903
Total public safety	382,360	382,360	392,845	(10,485)
Public works				
Public works	83,800	83,800	72,901	10,899
Street lighting	30,000	30,000	30,863	(863)
Sidewalk	11,000	11,000	342	10,658
Sanitation	3,500	3,500	4,006	(506)
City engineer	10,500	10,500	9,642	858
Total public works	138,800	138,800	117,754	21,046

Continued...

CITY OF ST. IGNACE

**DETAIL SCHEDULE OF EXPENDITURES AND OTHER USES
BUDGET AND ACTUAL - GENERAL FUND**

FOR THE YEAR ENDED DECEMBER 31, 2005

	Budget		Actual	Variance With Amended Budget Positive (Negative)
	Original	Amended		
Culture and recreation				
Park maintenance and construction	\$ 107,860	\$ 107,860	\$ 98,766	\$ 9,094
Other expenditures				
Central supplies	11,950	11,950	5,981	5,969
Community development	32,200	32,200	31,072	1,128
Community ambulance	50,000	50,000	21,481	28,519
Insurance and bonds	16,500	16,500	15,021	1,479
Fringe benefits	751,400	751,400	819,259	(67,859)
Office equipment	3,000	3,000	3,000	-
Data processing	22,000	22,000	22,000	-
Interest and fiscal charges	-	-	633	(633)
Total other expenditures	887,050	887,050	918,447	(31,397)
Total expenditures	1,857,320	1,857,320	1,872,575	(15,255)
Revenues under expenditures	(330,270)	(330,270)	(320,223)	10,047
Other financing sources (uses)				
Transfers in	510,000	510,000	513,552	3,552
Transfers out	(179,730)	(179,730)	(165,919)	13,811
Total other financing sources	330,270	330,270	347,633	17,363
Change in fund balance	-	-	27,410	27,410
Fund balance, beginning of year, as restated	139,006	139,006	139,006	-
Fund balance, end of year	\$ 139,006	\$ 139,006	\$ 166,416	\$ 27,410

Concluded

CITY OF ST. IGNACE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

DECEMBER 31, 2005

ASSETS	Special Revenue	Debt Service	Capital Project	Permanent Trust Fund	Total
Cash and cash equivalents	\$ 29,711	\$ 11,697	\$ 306,470	\$ -	\$ 347,878
Accounts receivable	81,713	-	-	-	81,713
Taxes receivable	8,992	-	-	-	8,992
Due from other governmental units	57,404	-	-	-	57,404
Lease receivable	-	-	88,896	-	88,896
Advance to other funds	-	-	99,874	-	99,874
Advance to component unit	-	-	12,537	-	12,537
Restricted cash	-	-	-	23,335	23,335
Total assets	\$ 177,820	\$ 11,697	\$ 507,777	\$ 23,335	\$ 720,629
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 23,876	\$ -	\$ 1,851	\$ -	\$ 25,727
Accrued expenses	5,383	-	-	-	5,383
Deferred revenue	8,511	-	88,896	-	97,407
Total liabilities	37,770	-	90,747	-	128,517
Fund balances					
Reserved					
Debt service	-	11,697	-	-	11,697
Perpetual care	-	-	-	23,335	23,335
Advances	-	-	112,411	-	112,411
Unreserved					
Designated					
Subsequent year's expenditures	4,920	-	-	-	4,920
Capital projects	-	-	304,619	-	304,619
Undesignated	135,130	-	-	-	135,130
Total fund balances	140,050	11,697	417,030	23,335	592,112
Total liabilities and fund balances	\$ 177,820	\$ 11,697	\$ 507,777	\$ 23,335	\$ 720,629

CITY OF ST. IGNACE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED DECEMBER 31, 2005

	Special Revenue	Debt Service	Capital Project	Permanent Trust Fund	Total
Revenues					
Taxes and penalties	\$ 68,635	\$ -	\$ -	\$ -	\$ 68,635
Charges for services	312,192	-	-	-	312,192
State revenues	302,286	-	-	-	302,286
Contributions	43,116	-	275,971	-	319,087
Interest	1,797	149	7,358	260	9,564
Miscellaneous	98,762	10,000	49,407	-	158,169
Total revenues	826,788	10,149	332,736	260	1,169,933
Expenditures					
Public safety	7,693	-	-	-	7,693
Public works	40,278	-	-	-	40,278
Culture and recreation	310,454	-	-	-	310,454
Highways and streets	429,461	-	-	-	429,461
Capital outlay	-	-	347,939	-	347,939
Other	30,837	-	4,426	-	35,263
Principal	-	258,994	-	-	258,994
Interest and fiscal charges	-	94,639	-	-	94,639
Total expenditures	818,723	353,633	352,365	-	1,524,721
Revenues over (under) expenditures	8,065	(343,484)	(19,629)	260	(354,788)
Other financing sources (uses)					
Transfers in	195,355	343,636	24,839	-	563,830
Transfers out	(212,819)	-	(19,488)	-	(232,307)
Total other financing sources (uses)	(17,464)	343,636	5,351	-	331,523
Change in fund balances	(9,399)	152	(14,278)	260	(23,265)
Fund balances, beginning of year, as restated	149,449	11,545	431,308	23,075	615,377
Fund balances, end of year	\$ 140,050	\$ 11,697	\$ 417,030	\$ 23,335	592,112

CITY OF ST. IGNACE
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS

DECEMBER 31, 2005

ASSETS	Major Street	Local Street	Building Inspector	Law Enforcement	Library
Cash and cash equivalents	\$ (35,199)	\$ (69,993)	\$ 5,514	\$ 12,306	\$ 52,409
Accounts receivable	-	70,504	718	-	-
Taxes receivable	-	-	-	-	-
Due from other governmental units	47,029	10,375	-	-	-
Total assets	\$ 11,830	\$ 10,886	\$ 6,232	\$ 12,306	\$ 52,409
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ -	\$ -	\$ 39	\$ -	\$ 1,729
Accrued expenses	1,362	760	698	-	653
Deferred revenue	-	-	-	-	-
Total liabilities	1,362	760	737	-	2,382
Fund balances					
Unreserved					
Designated -					
Subsequent year's expenditures	-	-	900	-	-
Undesignated (deficit)	10,468	10,126	4,595	12,306	50,027
Total fund balances	10,468	10,126	5,495	12,306	50,027
Total liabilities and fund balances	\$ 11,830	\$ 10,886	\$ 6,232	\$ 12,306	\$ 52,409

Cemetery	Recreation Program	Silver Mountain Ski Area	Community Center	Insurance Escrow	Vacation & Sick Pay	Total
\$ 6,462	\$ 13,525	\$ 1,644	\$ -	\$ 6,880	\$ 36,163	\$ 29,711
971	-	-	9,520	-	-	81,713
-	8,992	-	-	-	-	8,992
-	-	-	-	-	-	57,404
\$ 7,433	\$ 22,517	\$ 1,644	\$ 9,520	\$ 6,880	\$ 36,163	\$ 177,820
\$ -	\$ 29	\$ 2,573	\$ 12,627	\$ 6,879	\$ -	\$ 23,876
-	287	468	1,155	-	-	5,383
-	8,511	-	-	-	-	8,511
-	8,827	3,041	13,782	6,879	-	37,770
-	4,020	-	-	-	-	4,920
7,433	9,670	(1,397)	(4,262)	1	36,163	135,130
7,433	13,690	(1,397)	(4,262)	1	36,163	140,050
\$ 7,433	\$ 22,517	\$ 1,644	\$ 9,520	\$ 6,880	\$ 36,163	\$ 177,820

CITY OF ST. IGNACE

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2005

	Major Street	Local Street	Building Inspector	Law Enforcement	Library
Revenues					
Taxes and penalties	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	1,041	153,738	9,412	10,677	3,156
State revenues	220,168	78,022	-	-	4,096
Contributions	-	9,500	-	-	-
Interest	-	58	117	130	628
Miscellaneous	-	-	4,088	-	71,996
Total revenues	221,209	241,318	13,617	10,807	79,876
Expenditures					
Public safety	-	-	-	7,693	-
Public works	-	-	32,356	-	-
Culture and recreation	-	-	-	-	76,615
Highways and streets	195,050	234,411	-	-	-
Other	-	-	-	-	-
Total expenditures	195,050	234,411	32,356	7,693	76,615
Revenues over (under) expenditures	26,159	6,907	(18,739)	3,114	3,261
Other financing sources (uses)					
Transfers in	10,065	40,080	27,000	-	14,000
Transfers out	(42,474)	(39,657)	(10,353)	-	(23,025)
Total other financing sources (uses)	(32,409)	423	16,647	-	(9,025)
Change in fund balances	(6,250)	7,330	(2,092)	3,114	(5,764)
Fund balances, beginning of year, as restated	16,718	2,796	7,587	9,192	55,791
Fund balances, end of year	\$ 10,468	\$ 10,126	\$ 5,495	\$ 12,306	\$ 50,027

<u>Cemetery</u>	<u>Recreation Program</u>	<u>Silver Mountain Ski Area</u>	<u>Community Center</u>	<u>Insurance Escrow</u>	<u>Vacation & Sick Pay</u>	<u>Total</u>
\$ -	\$ 68,635	\$ -	\$ -	\$ -	\$ -	\$ 68,635
5,200	13,366	8,905	106,697	-	-	312,192
-	-	-	-	-	-	302,286
-	20,616	13,000	-	-	-	43,116
108	92	79	141	-	444	1,797
4,538	-	-	18,140	-	-	98,762
9,846	102,709	21,984	124,978	-	444	826,788
-	-	-	-	-	-	7,693
7,922	-	-	-	-	-	40,278
-	41,519	34,370	157,950	-	-	310,454
-	-	-	-	-	-	429,461
-	-	-	-	-	30,837	30,837
7,922	41,519	34,370	157,950	-	30,837	818,723
1,924	61,190	(12,386)	(32,972)	-	(30,393)	8,065
-	-	13,000	56,210	-	35,000	195,355
(2,382)	(57,796)	(9,632)	(27,500)	-	-	(212,819)
(2,382)	(57,796)	3,368	28,710	-	35,000	(17,464)
(458)	3,394	(9,018)	(4,262)	-	4,607	(9,399)
7,891	10,296	7,621	-	1	31,556	149,449
\$ 7,433	\$ 13,690	\$ (1,397)	\$ (4,262)	\$ 1	\$ 36,163	\$ 140,050

CITY OF ST. IGNACE
COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS

DECEMBER 31, 2005

ASSETS	Water and Sewer Debt Service	Fire Truck Debt Service	Building Authority Debt Service	Motor Vehicle Bond	Total
Cash and cash equivalents	\$ -	\$ -	\$ 3	\$ 11,694	\$ 11,697
Total assets (equal to reserved fund balance)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3</u></u>	<u><u>\$ 11,694</u></u>	<u><u>\$ 11,697</u></u>

CITY OF ST. IGNACE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS**

FOR THE YEAR ENDED DECEMBER 31, 2005

	Water and Sewer Debt Service	Fire Truck Debt Service	Building Authority Debt Service	Motor Vehicle Bond	Total
Revenues					
Interest	\$ -	\$ -	\$ -	\$ 149	\$ 149
Miscellaneous	-	-	10,000	-	10,000
Total revenues	-	-	10,000	149	10,149
Expenditures					
Principal	225,000	8,994	25,000	-	258,994
Interest and fiscal charges	42,064	178	52,397	-	94,639
Total expenditures	267,064	9,172	77,397	-	353,633
Revenues over (under) expenditures	(267,064)	(9,172)	(67,397)	149	(343,484)
Other financing sources					
Transfers in	267,064	9,172	67,400	-	343,636
Change in fund balances	-	-	3	149	152
Fund balances, beginning of year	-	-	-	11,545	11,545
Fund balances, end of year	\$ -	\$ -	\$ 3	\$ 11,694	\$ 11,697

CITY OF ST. IGNACE
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECT FUNDS

DECEMBER 31, 2005

ASSETS	Public Improvement	Building Improvement	Fire Truck	Recreation Center	Boardwalk Program
Cash and cash equivalents	\$ 2,481	\$ 61,752	\$ 3,484	\$ 13,579	\$ 25,573
Lease receivable	-	-	-	-	-
Advance to other funds	-	-	-	-	-
Advance to component unit	-	-	-	-	-
Total assets	\$ 2,481	\$ 61,752	\$ 3,484	\$ 13,579	\$ 25,573
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ 1,851	\$ -
Deferred revenue	-	-	-	-	-
Total liabilities	-	-	-	1,851	-
Fund balances					
Reserved for advances	-	-	-	-	-
Unreserved, designated for capital projects	2,481	61,752	3,484	11,728	25,573
Total fund balances	2,481	61,752	3,484	11,728	25,573
Total liabilities and fund balances	\$ 2,481	\$ 61,752	\$ 3,484	\$ 13,579	\$ 25,573

Pool Enclosure	Dock No. 3 Improvements	Capital Improvement Trust	Library Construction	Total
\$ 18,110	\$ 34,050	\$ 120,764	\$ 26,677	\$ 306,470
-	-	88,896	-	88,896
-	-	99,874	-	99,874
-	-	12,537	-	12,537
\$ 18,110	\$ 34,050	\$ 322,071	\$ 26,677	\$ 507,777
\$ -	\$ -	\$ -	\$ -	\$ 1,851
-	-	88,896	-	88,896
-	-	88,896	-	90,747
-	-	112,411	-	112,411
18,110	34,050	120,764	26,677	304,619
18,110	34,050	233,175	26,677	417,030
\$ 18,110	\$ 34,050	\$ 322,071	\$ 26,677	\$ 507,777

CITY OF ST. IGNACE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECT FUNDS**

FOR THE YEAR ENDED DECEMBER 31, 2005

	Public Improvement	Building Improvement	Fire Truck	Recreation Center	Boardwalk Program
Revenues					
Contributions	\$ -	\$ 4,803	\$ 7,746	\$ -	\$ -
Interest	29	753	70	64	278
Miscellaneous	-	-	-	10,000	-
Total revenues	29	5,556	7,816	10,064	278
Expenditures					
Capital outlay	-	2,083	-	2,714	471
Other	-	-	-	-	-
Total expenditures	-	2,083	-	2,714	471
Revenues over (under) expenditures	29	3,473	7,816	7,350	(193)
Other financing sources (uses)					
Transfers in	-	5,000	4,839	-	10,000
Transfers out	-	-	(9,172)	-	-
Total other financing sources (uses)	-	5,000	(4,333)	-	10,000
Change in fund balances	29	8,473	3,483	7,350	9,807
Fund balances, beginning of year	2,452	53,279	1	4,378	15,766
Fund balances, end of year	\$ 2,481	\$ 61,752	\$ 3,484	\$ 11,728	\$ 25,573

Pool Enclosure	Dock No. 3 Improvements	Building Authority Marina Construction	Capital Improvement Trust	Library Construction	Total
\$ -	\$ -	\$ -	\$ -	\$ 263,422	\$ 275,971
211	413	-	4,595	945	7,358
-	-	-	12,953	26,454	49,407
211	413	-	17,548	290,821	332,736
8,426	335	-	-	333,910	347,939
-	-	-	4,426	-	4,426
8,426	335	-	4,426	333,910	352,365
(8,215)	78	-	13,122	(43,089)	(19,629)
5,000	-	-	-	-	24,839
-	(251)	-	(10,065)	-	(19,488)
5,000	(251)	-	(10,065)	-	5,351
(3,215)	(173)	-	3,057	(43,089)	(14,278)
21,325	34,223	-	230,118	69,766	431,308
\$ 18,110	\$ 34,050	\$ -	\$ 233,175	\$ 26,677	\$ 417,030

CITY OF ST. IGNACE
COMBINING STATEMENT OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS

DECEMBER 31, 2005

	BFI Garbage Collection	Golf Course	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 10,126	\$ 88,637	\$ 98,763
Investments	-	50,000	50,000
Accounts receivable	11,203	-	11,203
Total current assets	21,329	138,637	159,966
Property and equipment, net of accumulated depreciation	-	139,981	139,981
Total assets	21,329	278,618	299,947
Liabilities			
Accounts payable	7,794	-	7,794
Net assets			
Invested in capital assets	-	139,981	139,981
Unrestricted	13,535	138,637	152,172
Total net assets	\$ 13,535	\$ 278,618	\$ 292,153

CITY OF ST. IGNACE

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS - NONMAJOR ENTERPRISE FUNDS**

FOR THE YEAR ENDED DECEMBER 31, 2005

	BFI Garbage Collection	Golf Course	Total
Operating revenues			
Sales and charges for services	\$ 95,449	\$ 130,787	\$ 226,236
Operating expenses			
Personal services	-	49,620	49,620
Contracted services	94,895	8,080	102,975
Repair and maintenance	-	15,708	15,708
Supplies	-	9,181	9,181
Depreciation	-	26,063	26,063
Miscellaneous	-	29,107	29,107
Total operating expenses	94,895	137,759	232,654
Operating income (loss)	554	(6,972)	(6,418)
Non-operating revenues			
Interest	-	2,485	2,485
Miscellaneous	1,174	20,158	21,332
Total non-operating revenues	1,174	22,643	23,817
Income before transfers	1,728	15,671	17,399
Other financing uses			
Transfers out	-	(18,597)	(18,597)
Change in net assets	1,728	(2,926)	(1,198)
Net assets, beginning of year	11,807	281,544	293,351
Net assets, end of year	\$ 13,535	\$ 278,618	\$ 292,153

CITY OF ST. IGNACE
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2005

	BFI Garbage Collection	Golf Course	Total
Cash flows from operating activities			
Cash collected from customers	\$ 95,213	\$ 130,787	\$ 226,000
Cash paid for employee wages and benefits	-	(49,620)	(49,620)
Cash paid for other operating and administrative expenses	(91,139)	(65,580)	(156,719)
Net cash provided by operating activities	4,074	15,587	19,661
Cash flows from non-capital financing activities			
Transfers out	-	(18,597)	(18,597)
Other income	1,174	20,158	21,332
Net cash provided by non-capital financing activities	1,174	1,561	2,735
Cash flows from investing activities			
Proceeds from sale of investments	2,225	-	2,225
Interest revenue	-	2,485	2,485
Net cash provided by investing activities	2,225	2,485	4,710
Net increase in cash and cash equivalents	7,473	19,633	27,106
Cash and cash equivalents, beginning of year	2,653	69,004	71,657
Cash and cash equivalents, end of year	\$ 10,126	\$ 88,637	\$ 98,763

Continued...

CITY OF ST. IGNACE
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>BFI Garbage Collection</u>	<u>Golf Course</u>	<u>Total</u>
Operating income (loss)	\$ 554	\$ (6,972)	\$ (6,418)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation and amortization	-	26,063	26,063
Changes in operating assets and liabilities which (used) provided cash			
Accounts receivable	(236)	-	(236)
Due from other funds	3,396	-	3,396
Accounts payable	360	-	360
Due to other funds	-	(3,504)	(3,504)
Net cash provided by operating activities	<u><u>\$ 4,074</u></u>	<u><u>\$ 15,587</u></u>	<u><u>\$ 19,661</u></u>

Concluded

CITY OF ST. IGNACE
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS

DECEMBER 31, 2005

	<u>Data Processing</u>	<u>Equipment</u>	<u>Office Equipment Pool</u>	<u>Total</u>
Assets				
Current assets				
Cash and cash equivalents	\$ 3,815	\$ 69,899	\$ 14,756	\$ 88,470
Property and equipment, net of accumulated depreciation	<u>-</u>	<u>392,407</u>	<u>7,365</u>	<u>399,772</u>
Total assets	<u>3,815</u>	<u>462,306</u>	<u>22,121</u>	<u>488,242</u>
Liabilities				
Current liabilities				
Accounts payable	-	9,535	-	9,535
Accrued expenses	786	928	-	1,714
Current portion of note payable	<u>-</u>	<u>19,159</u>	<u>-</u>	<u>19,159</u>
Total current liabilities	<u>786</u>	<u>29,622</u>	<u>-</u>	<u>30,408</u>
Notes payable, net of current portion	<u>-</u>	<u>28,337</u>	<u>-</u>	<u>28,337</u>
Total liabilities	<u>786</u>	<u>57,959</u>	<u>-</u>	<u>58,745</u>
Net assets				
Invested in capital assets, net of related debt	-	344,911	7,365	352,276
Unrestricted	<u>3,029</u>	<u>59,436</u>	<u>14,756</u>	<u>77,221</u>
Total net assets	<u><u>\$ 3,029</u></u>	<u><u>\$ 404,347</u></u>	<u><u>\$ 22,121</u></u>	<u><u>\$ 429,497</u></u>

CITY OF ST. IGNACE
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
INTERNAL SERVICE FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2005

	Data Processing	Equipment	Office Equipment Pool	Total
Operating revenues				
Charges for services	\$ 76,560	\$ 222,337	\$ 5,750	\$ 304,647
Operating expenses				
Personal services	40,872	51,477	-	92,349
Contracted services	3,961	1,896	-	5,857
Repair and maintenance	-	55,186	2,729	57,915
Supplies	1,490	60,350	-	61,840
Depreciation	-	73,476	3,362	76,838
Miscellaneous	4,770	32,948	-	37,718
Total operating expenses	51,093	275,333	6,091	332,517
Operating income (loss)	25,467	(52,996)	(341)	(27,870)
Non-operating revenues (expenses)				
Interest income	197	885	176	1,258
Interest expense	-	(2,049)	-	(2,049)
Miscellaneous	-	34,575	-	34,575
Total non-operating revenues	197	33,411	176	33,784
Income (loss) before transfers	25,664	(19,585)	(165)	5,914
Other financing sources (uses)				
Transfers in	8,000	-	-	8,000
Transfers out	(30,635)	(45,275)	-	(75,910)
Total other financing sources (uses)	(22,635)	(45,275)	-	(67,910)
Change in net assets	3,029	(64,860)	(165)	(61,996)
Net assets, beginning of year	-	469,207	22,286	491,493
Net assets, end of year	\$ 3,029	\$ 404,347	\$ 22,121	\$ 429,497

CITY OF ST. IGNACE
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2005

	Data Processing	Equipment	Office Equipment Pool	Total
Cash flows from operating activities				
Cash collected from other funds	\$ 76,560	\$ 195,532	\$ 5,750	\$ 277,842
Cash paid for employee wages and benefits	(40,872)	(51,477)	-	(92,349)
Cash paid for other operating and administrative expenses	(15,303)	(159,988)	(2,947)	(178,238)
Net cash provided by (used in) operating activities	20,385	(15,933)	2,803	7,255
Cash flows from non-capital financing activities				
Transfers in	8,000	-	-	8,000
Transfers out	(30,635)	(45,275)	-	(75,910)
Other income	-	34,575	-	34,575
Net cash used in non-capital financing activities	(22,635)	(10,700)	-	(33,335)
Cash flows from capital and related financing activities				
Interest expense	-	(2,049)	-	(2,049)
Principal payments	-	(18,489)	-	(18,489)
Sale of property and equipment	-	28,602	-	28,602
Net cash provided by capital and related financing activities	-	8,064	-	8,064
Cash flows from investing activities				
Sale of investments	2,677	39,951	5,372	48,000
Interest revenue	197	885	176	1,258
Net cash provided by investing activities	2,874	40,836	5,548	49,258
Net increase in cash and cash equivalents	624	22,267	8,351	31,242
Cash and cash equivalents, beginning of year	3,191	47,632	6,405	57,228
Cash and cash equivalents, end of year	\$ 3,815	\$ 69,899	\$ 14,756	\$ 88,470

Continued...

CITY OF ST. IGNACE
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Data Processing</u>	<u>Equipment</u>	<u>Office Equipment Pool</u>	<u>Total</u>
Operating income (loss)	\$ 25,467	\$ (52,996)	\$ (341)	\$ (27,870)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	-	73,476	3,362	76,838
Gain on sale of property and equipment	-	(28,602)	-	(28,602)
Changes in operating assets and liabilities which provided (used) cash				
Accounts receivable	-	1,797	-	1,797
Accounts payable	(5,107)	(10,088)	(218)	(15,413)
Accrued expenses	25	480	-	505
Net cash provided by (used in) operating activities	<u><u>\$ 20,385</u></u>	<u><u>\$ (15,933)</u></u>	<u><u>\$ 2,803</u></u>	<u><u>\$ 7,255</u></u>

Concluded

CITY OF ST. IGNACE

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND - CURRENT TAX COLLECTION FUND**

FOR THE YEAR ENDED DECEMBER 31, 2005

	Balance January 1, 2005	Additions	Deductions	Balance December 31, 2005
ASSETS				
Cash and cash equivalents	<u>\$ 313,766</u>	<u>\$ 3,267,699</u>	<u>\$ 3,380,114</u>	<u>\$ 201,351</u>
LIABILITIES				
Due to other governmental units	<u>\$ 313,766</u>	<u>\$ 3,267,699</u>	<u>\$ 3,380,114</u>	<u>\$ 201,351</u>

CITY OF ST. IGNACE
COMBINING BALANCE SHEET
GOVERNMENTAL COMPONENT UNIT - DOWNTOWN DEVELOPMENT AUTHORITY

DECEMBER 31, 2005

	General Downtown	Museum Operations	Property Management	Debt Service	American Legion Park
Assets					
Cash and cash equivalents	\$ 19,343	\$ 27,300	\$ 27,550	\$ 217,385	\$ 25,764
Taxes receivable	22,008	-	-	12,000	-
Due from primary government	-	-	-	38,104	-
Inventory	-	-	-	-	-
Total assets	\$ 41,351	\$ 27,300	\$ 27,550	\$ 267,489	\$ 25,764
Liabilities					
Accounts payable	\$ 1,299	\$ 465	\$ 2,737	\$ 17,179	\$ -
Accrued expenses	551	125	-	-	-
Due to other governmental units	-	-	-	206,205	-
Advance from other funds	-	-	12,537	-	-
Total liabilities	1,850	590	15,274	223,384	-
Fund balances					
Reserved for debt service	-	-	-	44,105	-
Unreserved, designated	22,000	-	-	-	25,764
Unreserved, undesignated	17,501	26,710	12,276	-	-
Total fund balances	39,501	26,710	12,276	44,105	25,764
Total liabilities and fund balances	\$ 41,351	\$ 27,300	\$ 27,550	\$ 267,489	\$ 25,764

**Reconciliation of fund balances on the balance sheet for the component unit
to the statement of net assets**

Total component unit fund balances

Amounts reported for *the component unit* in the statement of net assets are different because

Capital assets used in the component unit are not financial resources and therefore are not reported in the funds.

Add - capital assets, net

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds and installment contracts payable

Deduct - accrued interest on bonds payable

Net assets of the component unit

Museum Store	Gateway Project	Total
\$ 4,609	\$ 409	\$ 322,360
-	-	34,008
-	-	38,104
29,044	-	29,044
\$ 33,653	\$ 409	\$ 423,516

\$ 167	\$ -	\$ 21,847
2,189	-	2,865
-	-	206,205
-	-	12,537
2,356	-	243,454

-	-	44,105
-	-	47,764
31,297	409	88,193
31,297	409	180,062
\$ 33,653	\$ 409	\$ 423,516

\$ 180,062

1,019,472

(631,462)
(8,869)
\$ 559,203

CITY OF ST. IGNACE

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL COMPONENT UNIT - DOWNTOWN DEVELOPMENT AUTHORITY

FOR THE YEAR ENDED DECEMBER 31, 2005

	General Downtown	Museum Operations	Property Management	Debt Service	American Legion Park
Revenues					
Taxes and penalties	\$ 197,528	\$ -	\$ -	\$ 107,273	\$ -
Charges for services	-	13,207	-	-	-
State revenue	1,000	-	-	-	-
Interest	170	141	392	2,483	328
Miscellaneous	1,155	56,263	14,983	-	-
Total revenues	199,853	69,611	15,375	109,756	328
Expenditures					
Culture and recreation	131,600	86,605	29,875	-	-
Capital outlay	512	-	-	-	-
Principal	-	-	-	76,218	-
Interest and fiscal charges	-	-	405	47,787	-
Total expenditures	132,112	86,605	30,280	124,005	-
Revenues over (under) expenditures	67,741	(16,994)	(14,905)	(14,249)	328
Other financing sources (uses)					
Transfers in	-	40,000	-	-	-
Transfers out	(66,200)	-	-	-	-
Total other financing sources (uses)	(66,200)	40,000	-	-	-
Change in fund balances	1,541	23,006	(14,905)	(14,249)	328
Fund balances, beginning of year	37,960	3,704	27,181	58,354	25,436
Fund balances, end of year	\$ 39,501	\$ 26,710	\$ 12,276	\$ 44,105	\$ 25,764

Reconciliation of the statement of revenues, expenditures and change in fund balance of the component unit to the statement of activities

Net change in fund balances - total component unit

Amounts reported for the component unit in the statement of activities are different because

Component units report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay

Deduct - depreciation expense

Repayment of bond principal is an expenditure in the component unit, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term liabilities

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - current year decrease in accrued interest

Change in net assets of component unit

Museum Store	Gateway Project	Total
\$ -	\$ -	\$ 304,801
67,524	-	80,731
-	59,160	60,160
880	3	4,397
745	-	73,146
69,149	59,163	523,235
82,463	-	330,543
-	84,954	85,466
-	-	76,218
-	-	48,192
82,463	84,954	540,419
(13,314)	(25,791)	(17,184)
-	26,200	66,200
-	-	(66,200)
-	26,200	-
(13,314)	409	(17,184)
44,611	-	197,246
\$ 31,297	\$ 409	\$ 180,062

\$ (17,184)

84,254
(63,539)

76,218

1,009
\$ 80,758



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

February 24, 2006

Honorable Mayor and Members
of the City Council
City of St. Ignace
St. Ignace, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the ***City of St. Ignace*** (the "City"), as of and for the year ended December 31, 2005, which collectively comprise the ***City of St. Ignace's*** basic financial statements and have issued our report thereon dated February 24, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City in a separate letter dated February 24, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The instance of noncompliance is described as follows:

The City is under-funded in its required cash reserves, which is a violation of its bond covenants. See Note #3F.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and the City Council and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

February 24, 2006

Audit Committee
City Council
City of St. Ignace
St. Ignace, Michigan

Through our role in performing financial statement audit services, we have become familiar with your systems, operations and management team. As we work with our clients, we strive to provide direction and constructive feedback to help facilitate their success. The better we get to know you and your objectives, the more we can offer in terms of proactive advice.

In planning and performing our audit of the basic financial statements of the City of St. Ignace (the "City") for the year ended December 31, 2005, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

The memorandum that accompanies this letter summarizes comments related to reporting responsibilities and other matters of the City. This letter does not affect our report dated February 24, 2006 on the basic financial statements of the City.

We have already discussed these comments with the City Manager, City Clerk, and City Treasurer and the Audit Committee, and we would be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters and to provide any other assistance that you may respect.

Thank you for your business.

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**CITY OF ST. IGNACE
COMMENTS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Cash Management

Prior Year Comments and Recommendations

Over the past several years we have discussed the need for the City to reconcile the cash balance in pooled cash to cash balances in each reporting fund on a monthly basis in an effort to ensure that the City's management was able to monitor the cash position of its funds. In response to these comments, the City has made changes in the reconciliation process requiring monthly bank reconciliation and the use of a cash balance report to be provided to the City Manager. This report provided the information necessary to monitor individual fund cash requirements and those funds spending in excess of revenues being generated.

In 2004, we also noted that certain funds have carried cash balances in negative position, generally resulting from the timing of revenues (for example, certain grants require expenditures must be made and requests for reimbursement submitted and reviewed prior to the grantor issuing the grant proceeds to the City) and because certain fund expenditures exceeded the revenues generated. At December 31, 2004, the following funds had negative cash balances:

Sewer Enterprise Fund	\$ 279,563
Marina Enterprise Fund	90,135
Major Street Special Revenue Fund	22,386
Community Center Special Revenue Fund	3,149

Each of these negative balances resulted from generating less revenue than the expenditures required for its operations. Because the City had most of its cash in pooled accounts, when the above funds spend more than the revenue generated, they, in effect, used the cash of other funds to sustain its operations. We recommended that each time a fund falls to a negative cash position, City Council should be informed and should approve and/or authorize a transfer to cover the negative cash balance. This could be made in the form of an advance to be repaid with interest, or a contribution to the fund, and a plan should be established to return the affected fund to a positive cash position by reducing expenditures or increasing revenues.

Current Year Comments and Recommendations

As of December 31, 2005, management had reconciled the cash balances each month of 2005. Generally, reconciling items appear to be clearing in the subsequent month. It was reported to us that City Council was provided with a monthly cash statement which reported the cash balances in each fund. Throughout the year, management had, however, reported negative balances in various funds.

As of December 31, 2005, the following funds had negative cash balances:

Major Street Special Revenue Fund	\$ 35,199
Local Street Special Revenue Fund	69,933
#701 Capital Improvement Fund	138,666
Sewer Enterprise Fund	229,440
Marina Enterprise Fund	38,817

All cash of the Water Enterprise Fund is restricted for bond reserve requirements. No cash was available for operations at December 31, 2005.

Once again, we recommend that the City Council be provided with a Cash Management Report monthly. This report should list the allocation of cash to each fund from pooled and separately held cash. We recommend the negative cash balances be highlighted. With respect to each fund with negative cash, management should document for the City Council, the short-term plan for the elimination of the negative cash balance. If the negative cash balance will not be rectified in the short run, management should recommend a transfer from another fund, to cover the operating shortage. Further, management of the affected fund should result in a reduction in related expenditures until which time that additional revenues may be generated.

Bond Reserve Requirements

Prior Year Comments and Recommendations

We noted in the 2004 Comments and Recommendations Letter that the following cash reserve requirements relating to bond offerings for water and sewer system repair and replacements:

Water Enterprise Fund

Water Supply System Revenue Refunding	
Bonds Series 2002	\$ 299,500
Water Supply System Revenue Bond	
Series 2000	<u>65,700</u>
Total Water Enterprise Fund Required Reserves	<u>\$ 365,200</u>

Sewer Enterprise Fund

Sanitary Sewer Disposal System Revenue Bonds	
Series 1999A	<u>\$ 172,035</u>

As of December 31, 2004, the funds were under-reserved as follows:

Water Enterprise Fund	\$ 278,607
Sewer Enterprise Fund	172,035

We noted that both the water and sewer funds had depleted their operating cash over the past few years by expending more than the revenues they were able to generate resulting in the depletion of the cash reserves. Further, we noted that using the restricted cash for operations was a bond compliance violation which may result in limitation of the City's ability to obtain bond financing in the future.

Current Comments and Recommendations

As of December 31, 2005, the City was required, per its related bond agreements, to hold the following cash reserves:

Water Enterprise Fund

Water Supply System Revenue Refunding Bonds Series 2002	\$ 286,500
Water Supply System Revenue Bond Series 2000	<u>80,300</u>
Total Water Enterprise Fund Required Reserves	<u>\$ 366,800</u>

Sewer Enterprise Fund

Sanitary Sewer Disposal System Revenue Bonds Series 1999A	<u>\$ 214,790</u>
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As of December 31, 2005, the Water Enterprise Fund had reserves sufficient to meet the requirements of the bond agreement (\$415,685 reserve cash balance at December 31, 2005). The Sewer Enterprise had no balance in the bond reserves and therefore, was under-funded by the full \$214,790.

We, once again, recommend that the City establish and implement a plan to generate the addition revenue or reduce costs in the Sewer Enterprise fund as required to re-establish the bond reserve balances necessary to gain compliance with the related bond agreements. Further, the City should continue to monitor the Water Enterprise Fund Bond reserves ensuring the balances remain reserved and are not used to finance daily operations.

Property Tax Collection and Disbursement

Prior Year Comments and Recommendations

During the audit of December 31, 2004, it was noted that the City, acting as a collection and disbursing agent for other local governments, had made delinquent tax disbursements as required by Michigan Compiled Law 211.43. We recommended that the City enforce a policy of making required disbursements in compliance with Michigan Compiled Law 211.43.

Current Year Comments and Recommendations

For the year ended December 31, 2005, we haphazardly selected ten tax disbursing transactions and noted that all ten were disbursed on a timely basis. We commend management for making the changes necessary to comply with the requirements of Michigan Compiled Law 211.43. To avoid potential sanctions that may be imposed by the State of Michigan Department of Treasury, we recommend management continue to make responsible and timely tax disbursements.

Liability for Accrued Sick and Vacation Benefits

Prior Year Comments and Recommendations

As noted in the prior year, the City provides employees who have accumulated sick and vacation pay, the benefit of payout at retirement based on the provisions of their respective employment contracts. As of December 31, 2004, the City had reserved \$32,000 to finance the required payouts. The related liability at December 31, 2004 was approximately \$361,000. We recommended that management evaluate the retirement eligibility dates of each employee and determine the potential required cash flows into the future so that appropriate amounts may be transferred to the Accrued Sick and Vacation Fund annually.

Current Year Comments and Recommendations

During 2005, the City transferred \$35,000 to the Accrued Sick and Vacation Fund, and paid approximately \$31,000 in benefits resulting in an increase to the fund balance of approximately \$5,000 resulting in an ending fund balance of approximately \$36,000. The related liability as of December 31, 2005 is approximately \$365,000 with a potential payout in 2006 of approximately \$140,000 (amounts related to all eligible for retirement in 2006).

We again recommend that management prepare an accrued sick and vacation payout schedule based on the retirement eligibility of each employee of the City. The minimum cash balance in the Accrued Sick and Vacation Fund should be an amount equal to the accrued sick and vacation balances of each employee eligible for retirement in the subsequent year. Management must then develop a plan to establish the related cash balance.

Public Act 51 Road/Street Bank Accounts

The Michigan Department of Treasury requires that the Local and Major Street Funds have a separate bank account used to account for gas and weight taxes used for street and highway repair and maintenance. The City currently holds these funds in pooled cash. We recommend that the City establish and maintain a separate bank account for Local and Major Street Fund cash to comply with the requirements of the Michigan Department of Treasury.

Over-Capture of DDA Taxes

Over the past several years, the City Treasurer has been working with various employees of the State of Michigan to determine amount reported by the State as over-captured by the City. During 2005, the State of Michigan issued a communication to the City identifying the amount over-captured, over an eleven year period is approximately \$270,000. The amounts reported by the State Auditor for 1994, 1996, 2002, and 2003 are being disputed by the City and the City believes the amount determined as "over-captured" will be reduced to \$206,105. The City has set aside approximately \$170,000 in anticipation of the ultimate resolution of the State claim. Once resolved, the City will be required to remit payment to the State of Michigan promptly.

During the process of working with the State of Michigan Department of Treasury to determine the amount of the DDA over-capture, it was determined that the 1994 DDA Streetscape Debt Service payments which were to be split 50/50 between the DDA and the City, were split for the first two years, and then were made 100% by the DDA subsequent to 1997. As a result, the City is required to reimburse the DDA for their share of the payments (approximately \$38,000) and that the DDA, in turn, is required to refund the amount to the State of Michigan.

As a result of the probable resolution to this long-standing issue and the ability to reasonably estimate the amount due which occurred during 2005, the City has recorded the estimated liability due to the State of Michigan in the current year. Further, based on the determination of the City's error in the source of funds required to make the DDA Debt Service payment, a liability has been recorded from the City to the DDA and from the DDA to the State of Michigan.

Internal Controls and Segregation of Duties

As is true with many small municipalities, management must make a continued effort to revisit their internal control policies and procedures to ensure that adequate segregation of duties exist between the accounting, custody and management of the assets of the City. As a result of the retirement and replacement of the City Manager at the end of 2005, we recommend that City Council work together with management to review the City's internal control policies and procedures to ensure that adequate segregation of duties within the various accounting functions exist.

Specifically, to the extent possible, accounting personnel who have custody of City assets, mainly cash, should not be performing management or accounting functions related to the related transactions. Management responsible for reviewing and approving transactions should not have custody of assets and should not be recording the related transactions. Finally, those responsible for posting transactions to the general or subsidiary ledgers should not be allowed to review or approve related transactions and should not have custody of the related assets. Appropriately defining these responsibilities would mitigate the risk that errors, fraudulent transactions or illegal acts occur.

Deficit Fund Balances

As of December 31, 2005, the Silver Mountain Ski Area Non-major Special Revenue Fund and the Community Center Special Revenue Funds had deficit fund balances of \$1,397 and \$4,262, respectively. This resulted from the funds costs exceeding the revenues received. While the fund balances remain in deficit position, the City is required to file a deficit elimination plan with the State of Michigan Department of Treasury.

SEC Rule 15C2-12 Disclosure Requirements

SEC Rule No. 240.15c2-12 requires issuers of municipal securities in principal amounts of \$1 million or more or whose outstanding aggregate debt exceeds \$10 million, to report financial and operational information as well as notice of material events to nationally recognized municipal securities information repositories annually. The City is subject to these reporting requirements. We recommend you contact your bond counsel who will generally assist in the preparation and timely submission of the annual disclosures required.

Michigan Finance Qualifying Statement

All governmental units subject to the Revised Municipal Finance Act (PA34 of 2001) must submit a Michigan Finance Qualifying Statement that allows governmental units to be eligible to apply for financing during the fiscal year. The City must submit their qualifying statement electronically using the Michigan Department of Treasurer's website. The City Manager must contact the Local Audit and Finance Division of the Department of Treasury to establish a password to access the system and electronically submit their qualifying statement. The qualifying statement is due to the Michigan Department of Treasury by June 30, 2006.

Electronically Filing the Financial Statements

The Michigan Department of Treasury has issued Numbered Letter 2005-2 which requires (under the authority of Michigan Compiled Law 141.427(1) that all audits required in accordance with Public Act 2 of 1968 and Public Act 71 of 1919 be submitted electronically to the Treasury in a Portable Document Format (pdf) compatible with Adobe Acrobat. We have provided the necessary information, in this electronic format, to the City Clerk to enable the City to comply.

Conclusion

We would like to thank the City Council for your business and to thank the City's management team for their assistance during the audit. The staff continues to provide complete and timely information for audit and makes every attempt to provide the related information in a timely and accurate manner.